THE MAGAZINE OF WALL STREET

APRIL 29, 1933

Banking Moratorium Marked Low Point of Depression

By CHARLES BENEDICT

How Far Can This Market Go?

By A. T. MILLER

Common Stocks for Profit and Protection

By The Magazine of Wall Street Staff

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WITH THE EDITORS

We Move Toward Inflation

THE repercussions of the bombshell which the Senate threw into the financial markets of the world in the revelation of the amazing strength of the inflationists' position in Congress, gave rise to the greatest monetary event in a century—even more startling than the abandonment of gold by Britain in 1931. Never before in history has a nation deliberately abandoned the gold standard for reasons of economic policy, with its coffers full of gold and the balance of international trade in its favor.

When the President followed his gold embargo by request that power to adjust our currencies in accordance with emergency requirements be lodged solely with him, the almost universal inference was that inflation had begun in the United States. Abandoning the gold standard does not necessarily, however, open the floodgates to paper money, nor does the issuance of additional currency necessarily connote inflation. As a matter of fact, we do not believe that Mr. Roosevelt contemplates any *reckless* debasement of the dollar. Rather it would seem much more reasonable to conclude that he asks for this broad power in order to outwit the impractical inflationists in Congress and avoid a battle with them in which sound money would probably be defeated and his leadership lost. The mere fact that he asks for permission —not a mandate—should have a reassuring effect.

It is evident that the Administration's objective is a higher level of domestic prices to ease the burden of internal debt, and a protection against the inroads of foreign goods made possible, despite our tariff walls, by the depreciated currencies of other nations. The rise in goods, securities and foreign currencies has already begun to achieve these results. It may be further fostered by increasing the money in circulation without actual inflation. It must be remembered that it is possible to issue even so large an amount as 3 billion dollars in Federal Reserve notes and still retain a 40% gold backing as required by present law before we have actual inflation. Furthermore, it is well to recognize that it would take a considerable time before 3 billions could be gotten into free circulation—and it is quite conceivable that in the meantime the urgent need for further price stimulation may have passed.

We believe that a change in the gold content of the dollar is possible if not probable but we expect it only as a corollary of an international agreement for a return to gold on parities that will do justice to all currencies; or as a result of failure to attain such a desirable agreement with the ensuing battle of currency depreciation in pursuit of international trade advantage.

We have nothing but praise for the gold embargo as an emergency measure. It is only just that our Government should deny gold to foreigners when compelling its own people to surrender it. Moreover, insofar as the effects of our recent action concerns other nations, we must not lose sight of the fact that it is Europe who will be in the market for dollars to meet its obligations in this country. And in view of the fact that the balance of trade is in our favor, it is quite possible that after things settle down the dollar can easily be brought back to a point of stability if not its old parity. As a matter of fact, Europe does not stand to gain by any decline in the value of the dollar except insofar as the payment of her debts is concerned. But to balance that, there are the tremendous holdings of American securities payable in American dollars which are being held all over the world and which may shrink in value. In addition, a devalued dollar would produce a shrinkage in our buying power as applied to European goods which would naturally further curtail our purchases from the Continent. And there is the loss of the tremendous revenue which Europe secures from American travellers. We are now just coming into the tourist season and undoubtedly a decline in the value of the dollar as compared with European currencies would make it impossible for many to travel who had contemplated it this year.

In view of these considerations, we see no reason why the dollar should be driven to absurdly low levels in the exchange markets of the world, and its stability or recovery abroad is bound to instill considerable confidence at home. Perhaps these developments will bring the Continental nations, which are already at a point where they are just about existing, to a sudden awakening and a realization that something must be done in a concerted manner by which the world can begin to climb from the abyss.

Taken all in all, we wonder whether the bold steps which the Administration has taken may not prove helpful rather than harmful. Although we by no means welcome it, THE MAGAZINE OF WALL STREET has felt for several months that inflation was inevitable. The settlement of private indebtedness was proceeding at such a slow pace that it made it extremely difficult to meet present debts when due, and next to impossible to secure new loans. This had the result of check-mating business improvement. Now, perhaps, with a higher price level in view, we may find some relief from the barriers that have held us back.

This is not to say that we can remain oblivious to the hazards inherent in any inflationary measures. It cannot be denied that the door is open for outright printing press inflation if the expansion sought through the normal mechanism of Federal Reserve credit fails; or the taste for rising prices we have had in the last few days compel extreme measures. We doubt, however, whether that will become necessary; rather, we incline to the view that business will respond to the starter which it has already received. If we can progress on this impetus, or if the impending willed expansion can be strictly controlled and a higher price level regained, accompanied by renewed activity in trade and industry, the result must in the long run be good socially and economically.

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MOMENTOUS CONVERSATIONS AT WASHINGTON

PREMIER MacDONALD has endowed the series of conferences of President Roosevelt with representatives of many nations with an air of epochal import. He has said that the endurance of modern civilization depends upon them. If they do not reveal a co-operative purpose and a sincere determination to reshape the politico-economic world for the general and permanent good at the expense of some current and particular sacrifice of local interests there will be no general economic conference later. The real purpose of the conferences, then, in Washington is to ascertain whether anything constructive can come out of the general conference later. For it to meet and fail would be catastrophic. Hence it may be argued that if the united action of nations is the only way to end a depression which is destroying the world's economic life, the Washington talks will determine whether civilization is doomed or not.

The appealing and distinguishing phase of the parleys at Washington is that they disclose the United States in the role of international leader. President Roosevelt has confronted the world situation as boldly as he is meeting the domestic problem. They are inseparable, but in taking the initiative he implicitly commits this country to obligations that may be difficult and that will necessitate a revolutionary change in our economy. On the other hand, he moves to end a situation in which, little as we like to admit it, foreign nations are in effect shaping our affairs at home. The greatest of the trading nations, we have passively permitted our neighbors to do as they would with international trade; the most self-contained of all great nations we have lost our foreign trade without compensation at home. With more gold by far than any other nation we have hitherto allowed other nations to make it a source of weakness. The time has come for us to get deeply into international councils or completely out. The President has elected the former. Whether these Washington discussions have the world moment that Mr. MacDonald attaches to them, or not, they mark the cross roads of American foreign relations.

As this is written it is not possible to say positively whether the sensational abandonment of the gold standard by the United States while MacDonald and Herriot were on their way to Washington is a favorable auspice or not. We think it is, for it emphasizes the dangers of continued disorder in international relations and at the same time provides the President with a potent argument for harmonious action.

OPENING CLOSED BANKS

It is to be hoped that the present attention focused upon the Roosevelt project of controlled inflation will not halt the recently announced efforts of Secretary of the Treasury Woodin, in conference with the governors of the twelve Reserve banks, to find some means of expanding bank credit and particularly of freeing the approximately 5 billions of frozen assets tied up in closed banks. Business recovery evident since the end of the banking holiday is a gratifying indication of the strength and effectiveness of the large number of banks which have reopened without restriction, but the frozen deposits of some 5,000 closed banks—representing the working capital of thousands of corporations and individuals—remain a deflationary influence on business and public morale in many communities. Admittedly, the problem is a difficult one, but solution should not be left to such a vague remedy as general inflation. The conversion of these frozen assets into at least partial liquidity without further months of delay should be possible under more liberal Reconstruction Finance Corporation help and would be sounder than various other schemes of proposed Federal expenditure. Meanwhile a certain comfort can be derived from the latest statistics of open banks, which show that out of 6,736 member banks of the Reserve System 5,443 are now operating without restriction, while 7,654 out of 11,435 state institutions are unrestricted.

WE'VE STARTED SOMETHING

In these fast and furious times no man can foretell the morrow. One day we go off the gold standard, and the next we find we are on the verge of fundamental state control and supervision of all industry. The spread-the-work movement, from being merely a voluntary effort of industry to give everybody a share of whatever work there may be, threatens to become a governmental regimentation of business. The thirty-hour a week bill has been changed to include wage-fixing, regulation of output and compulsion of industrial group co-operation.

While the bill applies only to the next two years, it has undoubtedly started something that may grow into permanent national planning and regulation of industry. Intended only to meet a pressing unemployment emergency it may evolve into a program for preventing overproduction and the avoidance of future depression insofar as they rise from excessive or uncoordinated production.

What the law has hitherto forbidden economic groups to do of their own initiative it may now compel them to do. Yesterday it was criminal to restrain production and fix prices; tomorrow it may be criminal not to do so. The bill bristles with provisions that make a rugged individualist see red. It may turn out to be a clamp on business revival, and it is certainly disconcerting if not dismaying.

Like it or not, we are in the throes of a peaceful revolution. The chains of custom, convention and ancient laws are everywhere snapping. For a time at least all of us are approaching public problems from novel angles and with unheard of freedom of thought. We may think crookedly and decide foolishly; we may make a worse mess than we confronted. But at least we are thinking; and thinking tolerantly. We are in no danger of dying of mental indolence or of perishing from hide-bound conservatism.

WHAT! STOCKHOLDERS ATTENDING MEETINGS!

Not long ago we remarked that directors are beginning to direct; now we notice that stockholders are no longer content to hold—they are beginning to exercise the rights of ownership. It is coming to be a common thing for owners of companies to attend annual meetings. This is a wholesome if bizarre development, but it is sometimes annoying. Just the other day, the secretary of a large company had to recast the minutes of a meeting which were written up as adopted in advance solely because two shareholders appeared where none was expected. If this practice grows, busy company officers and directors will have to spend a lot of their valuable time at annual meetings. Worse than that they may run the risk of being insulted by insignificant persons with more regard for their pocketbooks than for their manners. We sympathize with the disturbed officers, but in the public interest we would be glad to see a lively row at every annual meeting of a public corporation, with flustered directors trying to explain the inexplicable. That would be a more efficacious way to make corporations safe for democracy—and for themselves—than stacks of regulatory statutes. They need the discipline of publicity to keep them mindful of the too long forgotten stockholder, forgotten even by himself.

FIRST QUARTER EARNINGS

Companies are now reporting for the first three months of the current year. By and large, those which succeeded in making money in the first quarter of last year have succeeded under the still more difficult conditions in making money in the first quarter of 1933. Not many, however, managed to better their 1932 showing. A few, indeed, did considerably worse and, although not many reports have yet come to hand, it would seem that the oil industry could be cited in this respect. On the whole, nevertheless, American business may be considered to have given a very fair account of itself if consideration is given to the paralyzing effect of the banking moratorium and the closing of stock and commodity exchanges. There is evidence perhaps that these disasters merely served to check what was fairly broad business improvement, for many important indices are now registering sharp gains. If this should prove to be the case and the current quarter ends as well as it started, it is possible that for the first time since the depression began the present three months will be better than the corresponding previous period. This may be the long-awaited turn in the profit trend and reports for the period through which we are now passing will be awaited with a lively anticipation.

Inflation Prospect Lifts Prices in Bull Market Fashion

Protection Against Depreciated Dollar Causes Rush to Equities—Can It Continue?

How Far Can This Market Go?

By A. T. MILLER

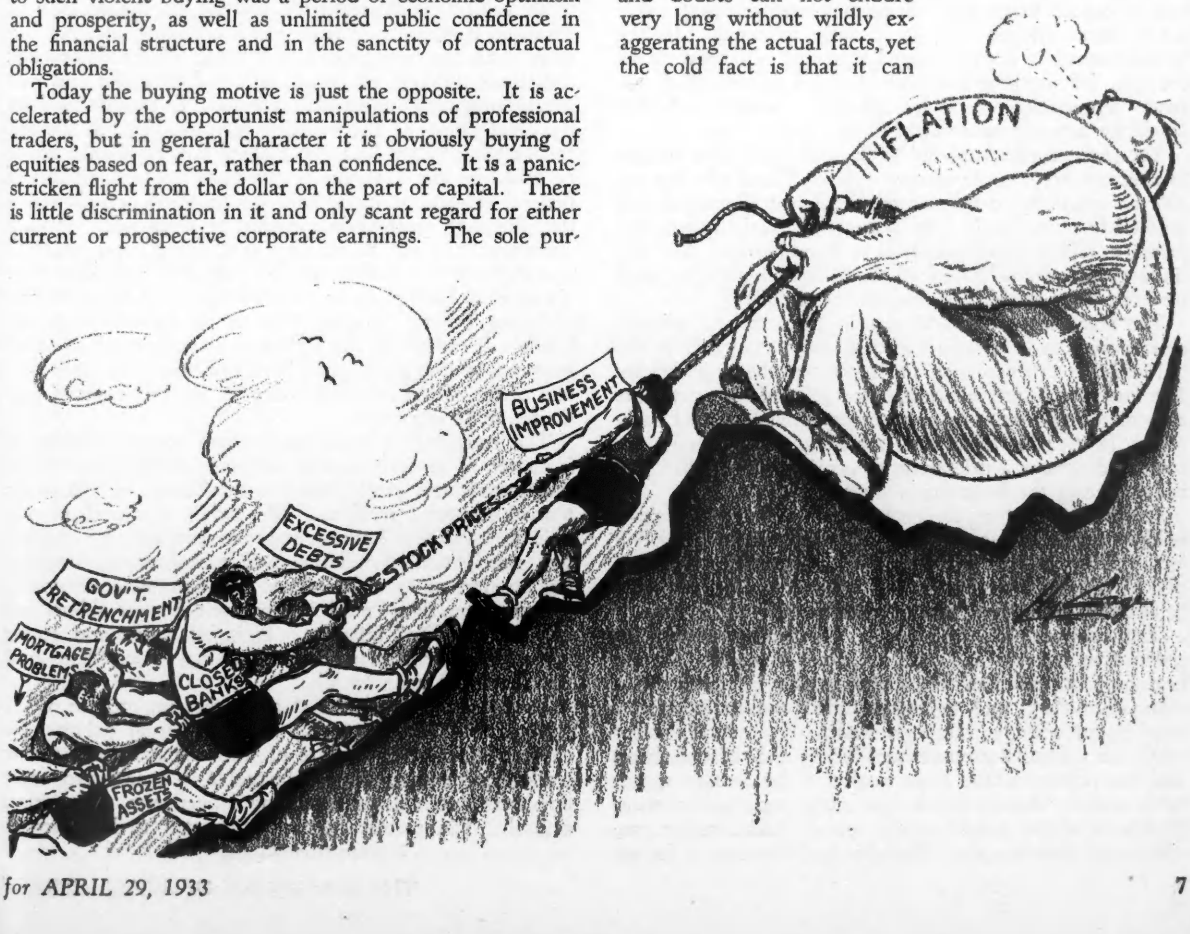
INFLATIONARY psychology, after nearly a month of blowing hot and cold, has at this writing burst into full bloom of positive public conviction, resulting in a stampede of stock market and commodity market buying such as has not been seen since the speculative boom of 1928 and 1929. For the present, volume of trading has literally swamped the mechanical facilities of the Stock Exchange and urgent demand from both large and small purchasers throughout the country has swept more than 500 stocks up to new high prices for the year..

It is, of course, a wholly abnormal market, not to be compared with any market within the experience of the present generation and, hence, not subject to orthodox speculative reasoning. The last time that stocks were subject to such violent buying was a period of economic optimism and prosperity, as well as unlimited public confidence in the financial structure and in the sanctity of contractual obligations.

Today the buying motive is just the opposite. It is accelerated by the opportunist manipulations of professional traders, but in general character it is obviously buying of equities based on fear, rather than confidence. It is a panic-stricken flight from the dollar on the part of capital. There is little discrimination in it and only scant regard for either current or prospective corporate earnings. The sole purpose of most buyers is to get rid of their surplus dollars.

The volume of trading has jumped violently from a recent average of but little over 1,000,000 shares a day to a figure of more than 7,000,000, the heaviest since May 5, 1930, and has thrown the high speed ticker system at times more than half an hour behind floor transactions. At the moment the movement gives no indication of slackening, although group movements have begun to show some variance. Under normal speculative reasoning, one would be tempted to argue that such a splurge of violent advance probably marked a climax, to be followed by a period of more sober consideration and more careful observation of actual inflationary developments.

It is sound theory that anticipation of future possibilities and doubts can not endure very long without wildly exaggerating the actual facts, yet the cold fact is that it can



only be a guess whether the climax is to be spread over a period of days or of weeks. Likewise, in a movement based upon inflation rather than normal confidence in orthodox economic recovery, there is no basis for rational analysis on the question of whether the major part of the advance has now been experienced or on the equally baffling question of whether and when there may be sharp corrective reaction.

Numerous individuals, especially among the professional element, no doubt will be tempted to play an in-and-out game of speculation, accepting large paper profits and attempting to jump on and off the inflation band-wagon as hour-to-hour or day-to-day considerations dictate. For the average investor, however, there is the sobering consideration that this type of speculation is inordinately dangerous, presenting the grave risk that acceptance of profits may well defeat the fundamental purpose of capital protection which has been sought in the transfer of dollars into equities, for no one knows the future value of the dollar under the serious doubts and uncertainties now prevailing as regards the future fiscal policy of the Government.

For many weeks this publication has envisioned the possibility of some degree of inflation and has recommended investment protection by means of purchase of sound and carefully selected equities—equities which would give substantial promise of appreciation either under inflation or under normal economic revival. Some signs of the latter had appeared in business at the very time when inflationary agitation in Congress was just beginning to show its serious potentialities.

The stocks recommended in past weeks now show a large aggregate of profit, some having advanced from 50 to 100 per cent. They have thus already afforded a very large degree of capital protection. Some may even discount a dollar inflation greater than is actually to occur. In the broader sense, it is to be hoped that this will prove to be the case, for anything like unlimited and uncontrolled currency depreciation would see temporary benefits only followed by ultimate economic disaster.

Yet present prospects are such that we see no reason to alter our previous investment policy. *Those who are unable or unwilling to take large speculative chances should hold on to sound stocks even at present greatly appreciated prices, or add to commitments as occasion permits, thus continuing the general policy of regarding tangible property investments as at least less doubtful than dollars.*

The first quarter corporate earnings reports are unfavorable, as was to have been expected, more than half of the industrial companies thus far reporting showing deficits. The factor of future inflation, however, is of so vastly more immediate importance on investment psychology that earnings cease to have their usual meaning. Many stocks are commanding now a price-ratio to earnings higher than prevailed during the boom-era markets.

In short, the setting is one in which millions of persons holding stocks are unwilling to sell them for doubtful dollars, making, at least for the present, a generally thin supply of offerings, against which volume buying can only be done at radically advanced quotations.

The advance has followed a broadening pattern as speculative interest and activity have increased. In the beginning it tended to concentrate mainly in commodities, especially wheat, and in the so-called commodity stocks, notably, for example, the sugar issues. For several sessions while the industrial group moved higher, the railroad shares and the public utilities were neglected for reasons apparently sound. With their service rates fixed, each of these groups of stocks would appear less attractive under conditions of inflation than the strong industrials. In addition, the utilities are distinctly under political clouds of serious importance. The rails also are by no means free of political dangers, although, in their favor, it can be said that any stimulation of the movement of business under the inflationary impulse would result in increased traffic and earnings.

Whether both groups were speculatively regarded as being "behind" the market or of offering possibilities of trapping large short interests, they have belatedly joined the uprush, although still in somewhat less convincing fashion than the average industrial issues. It is a curious fact that during the very hour when utilities began to spurt, the difficulties of the industry were being complicated by agitation in Congress to transfer the present "nuisance" taxes on domestic electricity from the consumers to the producing companies.

On the whole, it is probably reasonable to conclude that there is serious danger in attaching too much basic significance to the immediate erratic group movements, since they may well reflect purely temporary trading maneuvers rather than future probabilities. For purposes of capital protection we believe selected industrial equities such as have been recommended from time to time are more desirable than utilities and, for that matter, preferable to all except a very small minority of the soundest rails.

Both as regards the world and our domestic situation, inflationary tendencies here must be frankly recognized as vastly increasing the doubts and uncertainties of capital and business, for while the latter will derive some initial stimulation, both investment and business are vitally interested in the rules of the money game, instability in which is more baffling than even the wildest of natural price fluctuations.

Under legislation now pending at Washington, the rules of the game as affecting the real value of the currency are to be subject to discretionary changes on the decision of President Roosevelt. The project is a compromise, put forward with the hope that it will stave off mandatory and dangerous inflation on direct order of Congress and substitute, instead, a controllable reflation. In its present form the chief points of the inflation plan are that, in the discretion of the President, the Federal Reserve Banks are to be asked by the Treasury to purchase up to 3 billions of Federal obligations to be held for specified periods unless the Treasury meanwhile consents to their sale. If such agreement can not be reached or if such "open market" operations prove inadequate, the President may direct the Treasury to issue notes or currency up to 3 billions to meet maturing Federal obligations or to purchase Government bonds. In addition, the President is authorized to lower by proclamation or international agreement the gold content of the dollar, but with reduction in the weight of gold limited to 50 per cent.

The exercise of any of these powers may conceivably be a matter of several months, pending the outcome of the Administration's negotiations with foreign countries on mutual economic problems. Meanwhile it is perhaps possible to hope that business improvement and the speculative anticipation of inflation will so bolster our underlying position as to make radical inflation unnecessary. It appears clear that President Roosevelt himself abhors any idea of unlimited inflation. It is his active and strong leadership in protecting the real national interest that must now be relied upon by all.

In comparison with the stock market importance of the changes that have occurred in governmental policies, the current business indexes are of scant significance. A few weeks ago they appeared unfavorable in a near-term sense but were accepted as promising longer-term and normal revival. The picture may now be said to be reversed.

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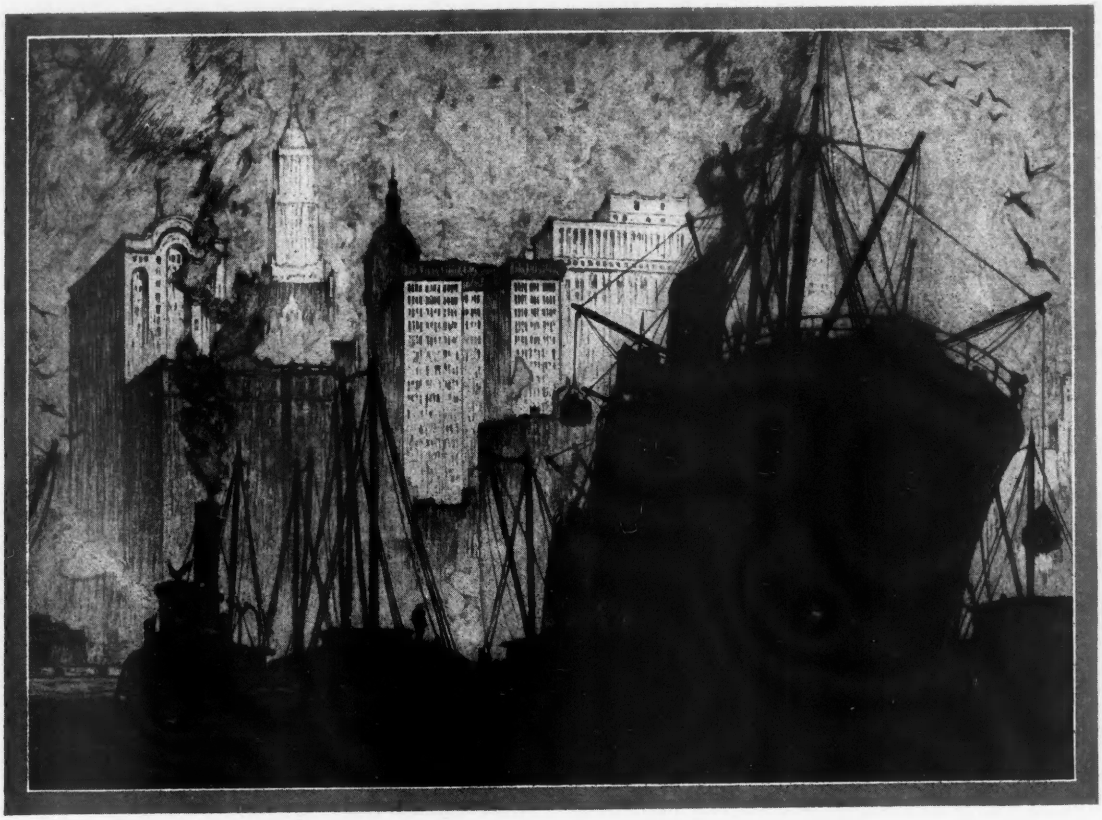


Martin Lewis Etching, Courtesy, Kennedy & Co.

Banking Moratorium Marked Low Point of Depression

Adverse Factors Being Slowly Counterbalanced as Adjustment of Major Difficulties Progresses

By Charles Benedict

Mr. Benedict's discerning and clear cut analyses of economic questions in his regular editorial feature are well known to readers of this Magazine *and the many papers and periodicals which quote him. It is a pleasure to present this comprehensive view of the business prospect from his pen. It should prove valuable in its enlightenment in these bewildering times.*—Editor.

If we had purposely set out to determine by experiment the lowest ebb to which American business could be driven short of utter chaos we could have found no more effective means than to halt all banking functions.

When industry and trade are deprived of the life-giving stream of money and credit, when purchasing power is curtailed almost to a cash-in-pocket basis, then business must certainly be reduced to the nadir of activity.

Just such a test was forced upon us by the general bank moratorium.

For ten days the nation was virtually, if not absolutely, on a bankless basis—and is still seriously lacking adequate banking facilities. Orders fell off precipitately, factories closed down, shipments shrank, retail trade dwindled to the closest approximation of a cash condition that has ever been experienced. Business activity declined to the lowest point since the depression began. . . . But, and here is the important point, it was only five points below the level of last July,

when no banking emergency prevailed and sentiment favored the belief that the long expected turn had come.

If there is any absolute bottom to such a depression as this, is there not a fair presumption that we have seen it? If so, we shall not stay there, because being at the bottom automatically gives rise to ascent—for the forces which establish a bottom are the same that make for business improvement. It takes more than one swallow to proclaim summer, but it is impressive to note that, with five or six thousand banks still closed for ordinary business functions, the index of business activity had regained in early April the level which prevailed before the slump last summer, as can be seen from the accompanying graph.

There is substantial reason to believe that the bank and money panic was the means of pushing American business considerably below the point that could have been attained by all the momentum of four downward years. The curve of depression until the panic impulse superseded all tendencies had been gradually flattening out not only in the United States but in the world at large.

The Tale of International Commodity Prices

(1926—100—All Prices in Gold Equivalent)
TYPICAL GOLD AND NON-GOLD COUNTRIES

Country	1929	1930	1931	Feb. 1932	Feb. 1933
United States	95.3	86.4	73.0	66.3	59.8
*United Kingdom	92.2	80.8	65.5	50.6	47.1
France	109.0	96.6	86.9	76.8	70.3
*Denmark	93.4	81.5	66.5	52.9	44.1
Germany	102.1	93.0	81.9	71.7	67.1
*Sweden	94.0	82.3	70.2	48.5	48.6

*Abandoned gold standard in 1931. Their domestic currency prices have declined little or not at all in more than two years, while gold prices have fallen like a plummet, making imports dear and exports cheap; as a given amount of gold will buy more of the currency, or a given amount of currency will exchange for less gold.

A Stabilizing World

Breaking a three-year trend, business activity in the United States was higher in February than in the preceding September, to say nothing of a most exceptional rise in December and January.

Taking the world as a whole, industrial production declined only three points in 1932—the smallest annual falling off since the depression began, despite the setback in July and August.

During the year, industrial production in Germany actually advanced four index units. In England it was the same for 1932 as for 1931; France fell off three units during the year, but in industrial countries as a whole there was an advance toward the end of the year, which appeared definitely to mark an end of more than three years of recession. At the turn of the year commodity prices gained slightly in Great Britain; in France they remained almost stationary; in the United States the downward trend was still in evidence; in Germany prices were about level for December, January and February.

Whatever gain or retardation of the decline was achieved came in the face of a generally enormous shrinkage in world trade. This might be accepted as an indication that, taken by countries, the nations generally have reached the irreducible minimum of domestic trade. To have checked the downward drift of the past three years in the face of the inescapable effects on internal business of the highest tariffs and other trade barriers the world has ever known is not without its encouraging aspects. This is the more remarkable when it is noted that the total international trade of the world has fallen 60 per cent—and much of what remains is profitless even to those countries to all of whom export trade is vital. Realizing that the present state of trade provides in many countries less than a bare existence, we must go forward unless a great catastrophe impends. Let us review some of the facts and forces, pro and con, natural and artificial, that favor or oppose further demoralization or revival.

Firstly, look at the internal situation, and above all, the debts problem. It has been recently calculated that the outstanding debts of the country somewhat exceed the total of national wealth, whereas four years ago wealth was considerable more than twice debt. Such a statement, of course, has no absolute significance. Wealth, as measured in money, is intangible, elusive, variable. Let business revive, spirits flare, and prices recover, and a new computation will have to be made over night—and it will show the country with a big surplus of wealth over debt. *Wealth is largely the capitalization of income.* To say that we owe more than we have is about the same as saying that a temporarily bed-ridden man has no strength, at present. Yet it is the present with which we must deal, for many of the debts contracted on the basis of larger incomes are payable today in terms of today's hard-won dollars.

Take the farm debt, which is generally regarded as the most critical and the most pivotal with respect to the general economic position. The Department of Agriculture has recently informed Congress that total farm obligations exceed 12 billion dollars. Of this amount 8 billion dollars are represented by farm mortgages, 2 billions of short term commercial bank loans. The rest is mostly merchants' book accounts with farmers which are interest-bearing.

Farm Debts Less Menacing Than Painted

It is the mortgages that make up most of the farm debt problem from the point of view of general involvement and interest. In general, the interest rates are unsupportable under present income conditions, and under present valuations much of the principal is inflated if not impaired. *But there is the comforting fact that only 40 per cent of the nation's six million odd farms are mortgaged, and of these only 60 per cent are mortgaged for more than 30 per cent of their value. Including all farms, the number mortgaged at more than 50 per cent of value is only 15 per cent of the total mortgaged.*

The deflation of the debt to correspond to present business conditions is proceeding rapidly. The farmers benefit by that process in the controlled form it is now generally taking, partly as the result of governmental intervention and partly because of mutual readjustments between mortgagors and mortgagees. Even foreclosure is in most cases an improvement of the mortgagor's actual position. In many cases he can continue on his land as a tenant or as a refinanced owner at a greatly reduced overhead expense.

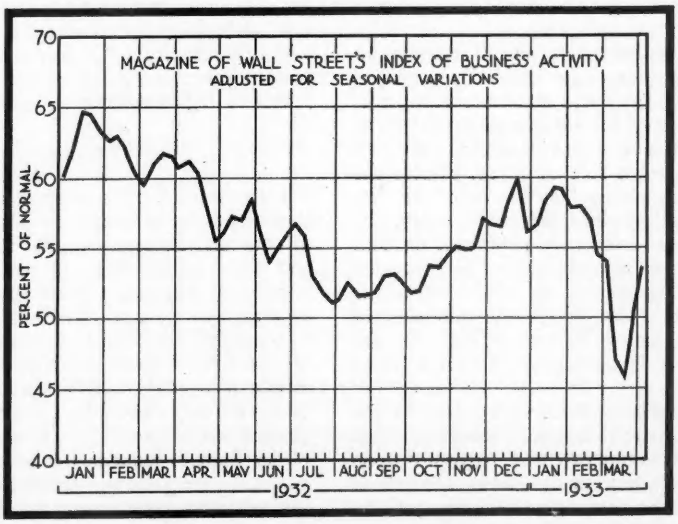
It is the mortgagees (and through them the economic whole) who suffer finally from curtailment of principal or of interest in readjustment. The insurance companies—the backlog of millions of our people—hold the bag for 23 per cent of the farm mortgages, the amount being a little over 2 billion dollars—about 10 per cent of their total assets. Even if final readjustment leaves them with a loss of half a billion dollars—which it will not—their position

will not be much impaired. The billion dollars in farm mortgages held by commercial banks has been already largely washed out by the deluge of bank failures and written off. The 1,800 million dollars held by Federal Land Banks and Joint Stock Land Banks are about to be refinanced on low interest terms by the Federal Government, with only slight additions to the sum total of debt, public and private. Moreover, there is to be cash assistance to pay taxes and interests. Farmers, active and retired, hold something like 1,300 million dollars in mortgages on other farms; this is a sort of family affair. Another 2 billions is held by non-farm individuals and miscellaneous agencies. The total number of mortgage delinquencies are estimated to be about 50 per cent, and certainly not all of these are in dire distress. Therefore, we may assume that the 2 billion dollars appropriated by the Government will go a long way in relieving the situation. Partly in this belief, and partly under duress in some sections of the country, farm foreclosures have almost ceased.

Urban Situation Worse Than Rural

At present urban mortgage debts are more disturbing than the rural. They aggregate something over 36 billion dollars, of which 21.5 billion dollars are on homes—and the mortgagors have had to take the business catastrophe unaided by "strikes" or public opinion. Of the latter amount only one-tenth is held by insurance companies. They will nominally lose something but will actually gain in the process of readjustment through Federal home loan intervention and other readjustments. Foreclosures proceeded in 1932 at three times the rate of 1926; total for city and country being calculated at upward of 500,000 mortgages.

All classes of banks are in urban mortgages to the extent, roundly, of 10 billion dollars. The mutual savings banks have a little over half of the bank total, but as in their case the depositors are the banks their fates are largely in their own hands. As mortgages are half their assets—and properly so— these are trying times for them and for those who depend upon them for financing. But their worries are over with any sustained recovery of business, and they have demonstrated that they can survive on the present scale of business activity. The mortgage situation has wrought already about all the havoc it can with the commercial banks. The Building and Loan Associations are mutual concerns, and the Federal Home Loan Bank, which is their Federal Reserve counterpart, is now passing out 20 million dollars a month to carry them over the bad spots in the road. Foreclosures are beginning to slow up noticeably.



The five billions of real estate mortgage bonds have done their worst to the general credit situation, and Rabelaisian laughter greets the spectacle of guaranty companies asking help from the guarantees. The mortgage companies and the individual mortgagees, holding eight billion dollars of mortgages are of course in misery, and so are their mortgagors. Yet the urban home mortgage crisis has passed its most serious stage. The Home Loan Banks are functioning smoothly and rapidly now under their organic act, and through them the home mortgage relief bill about to be passed by Congress will provide a special fund of 2 billion dollars for refinancing, besides 200 million dollars for establishing building and loan associations in communities where there are none at present. Some provision is also made for meeting taxes and overdue interest.

The mortgage situation will have disturbing effects for some time to come, but it certainly has hit the bottom, and will be cleared up within a comparatively short time. It will not remain as a millstone around the neck of revival for years to come, as was the outlook a year ago.

The Deflation of the Banks

Much concern is expressed over the possible effects of the great deflation of bank resources realized by the banking collapse, which has left more than 5,000 banks in process of dissolution or reorganization. This deflation, however, was already a fact; it has simply been faced at last, by passing it on to depositors, stockholders and borrowers. Nevertheless, it has a most demoralizing effect, and takes all the banks to a considerable extent out of the spontaneous sources of recovery. Their capacity and also their disposition to help have been mutilated, thus sorely affecting purchasing power of the country. On the other hand, the open banks are getting, or will soon be, in a position to function actively with their remaining resources, whereas for a long time they were not using what they had because of their concern over their dubious assets.

As for the closed banks there is a bright prospect as this is written that the Federal Reserve authorities will utilize some two billion dollars of emergency currency to reopen most of them, thus releasing some billions of frozen deposits.

Liquidation of securities appears to have run its course as a distributing factor in banking and investment. The bank panic did not send bonds down to the level of last July, and common stocks, even in so comprehensive a list as that of THE MAGAZINE OF WALL STREET'S index did not fall to July levels. If there is anything that such a jolt as that of the bank moratorium would send crashing to their concrete bottom it would be common stock. An examination of a score of stockholders lists of leading companies shows an average turnover of more than 35 per cent among the shareholders of record during the past two years. Distress holdings seem to have been largely eliminated; and in view of the prevailing downward market trend, the holders of stocks today are mainly those who acquired them at satisfactorily low prices for a long pull. The pressure of paper losses cannot be heavy enough under such circumstances to force stocks back on the market in alarming or

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What the New Securities Act Means

To Investors — To Business — To Directors

Wholesome Measure Now Before Congress Would Impose New Responsibility on Corporate Directors and Accord Security Buyers Added Protection—Objectionable Features of Bill Have Been Eliminated

By Raymond F. Brown

As the excesses and evils of the boom era have become increasingly apparent, the demand for greater protection and more ethical dealing has steadily borne fruit in numerous and wholesome reform. Stock Exchange regulations have been tightened, corporations have been charged with greater responsibility to their stockholders, and banks are leaving the security business to confine themselves to investment banking. Now the exposure of various practices surrounding the sale of new security issues has brought the federal government into the picture with further safeguards demanded for the investor.

On March 29 President Roosevelt sent a message to Congress recommending legislation for Federal supervision of traffic in investment securities and interstate commerce. He stated that the purpose of the legislation should be to protect the public with the least possible interference to honest business. To the ancient rule of caveat emptor the further doctrine was to be added "let the seller also beware." The burden of telling the whole truth was to be placed on the seller and no essentially important element attending the issue of a new security was to be concealed from the buying public. The purpose and the policy of the bill, therefore, is to protect, first of all, the purchaser of securities and second the honest business houses that are selling securities, with as little interference to the conduct of this business as possible.

Due probably to the necessary haste with which it was drafted, the original bill contained several provisions that were likely to inflict needless but extensive hardships upon the legitimate dealers in securities but these defects have been eliminated in the bill that the Banking and Currency Committee is now ready to report to the House and Senate for action. The Investment Bankers Association of America had in preparation a model securities bill of its own but abandoned the idea of its submission to Congress when informed of the revisions that had been made.

Two Interests Served

Obviously a measure such as this to be constructive in its effects must be satisfactory not only to the owners and users of investment capital but also to the legitimate investment bankers whose function it is to bring these two interests together. Unnecessary obstacles and red tape could quite conceivably interfere harmfully in one of the most vital functions of our economic life—supplying capital to industry. To frame a bill that will protect the investor and at the same time not throw a monkey wrench into the machinery for the distribution of securities has not been an easy task. An exhaustive study was made by the Committee of the British Companies Act, French Securities Act and Uniform Sale of Securities Act. The latter was drafted by commissioners of 38 states in connection with the American Bar Association. As far as possible important precedent has been followed that has had the approval of high authority.

Effect on New Capital Markets

Let us see what the effect of the Securities Act might be expected to be on business. Obviously business is interested in obtaining necessary capital on the most favorable terms and with as little delay as possible. Nothing is more important in creating a public market for securities of any type than confidence. There is no question that confidence of the public in the distributors of securities including those of the very highest reputation has been rudely shaken. While it is perhaps true that this loss of confidence has been primarily caused by a change in the price level and a general shrinkage of all business due to the depression rather than to malicious mismanagement, incompetence or lack of investigation or frankness on the part of those who sold securities, nevertheless this mental attitude exists. Anything that will tend to banish it and bring back the confidence that the public should normally have in its investment bankers is of unquestioned importance.

The Securities Act we feel should go a long way toward mending the breach that now exists between the investor and the distributor of securities. What for example, could be more confidence inspiring to the investor than to know before he purchases securities that he has received complete and accurate information as regards the companys' affairs as well as just how much of his money is going to the com-

pany and how much is going to the distributor. His belief in the statement submitted to him is bound to be increased when he knows that a false statement of any kind or degree carries with it a possible sentence of five years in jail. Under the Securities Act the buyer is entitled to and must receive information complete in character; and there is little likelihood of anything other than a true picture being presented.

Some of the high-lights of information that must be given by the seller are: The names of all persons owning as much as 1 per cent of the stock that is being offered. A statement as of a date not more than 90 days prior to the date of filing the registration statement showing all the assets in detail (with intangible items segregated), the nature and cost thereof, whenever determinable and in what form paid.

Loans to officers, directors and affiliated persons in excess of $20,000 each. All the liabilities of the issuer in detail, showing how and from what sources surplus was created. Statement of earnings and income during the preceding three fiscal years with details showing what the practice of the company has been as to the character of charges made against various surplus accounts and as to depreciation and depletion and maintenance charges, and if stock dividends have been credited to income. A statement showing the investment of the directors in the company. The names of the syndicates, if any, underwriting the security offered. The purpose for which the securities to be offered are issued and the amount of commission and bonuses. A detailed statement showing the items at cost of properties, services, patents, good will and any other considerations for which securities, commissions or bonuses have been or are to be paid or issued. The amount of capital stock which is to be set aside or disposed of for services to promoters if any.

Among the securities that this Act does not apply to are included: Any security issued and guaranteed by the United States or insular possession or any state or instrumentality of any state. Any security issued by and representing an interest or a direct obligation of any common carrier or other public utility subject to regulation or supervision as to issue of its securities by a commission, board or officers of the Government. Any securities issued by any national bank; or by any corporation created and controlled by and acting as an instrumentality of the Government of the United States. Any security issued by a corporation organized exclusively for religious, educational, benevolent, charitable, fraternal or reformatory purposes and not for pecuniary profits. Bonds or notes secured by mortgage upon real estate improved or about to be improved on residential structure if the amount does not exceed $25,000. Any security other than common stock providing for a fixed return which has been outstanding and in the hands of the public for a period of not less than five years and issued by a person or corporation having a total capital of not exceeding $100,000. Any security issued by a building and loan association, cooperative bank, homestead association and savings and loan association. Any security issued by and representing an interest or direct obligation of any Federal Reserve Bank. Notes or other evidences of indebtedness issued by a corporation in the regular course of business representing borrowings to the full face value thereof and not directly or indirectly offered for distribution to the public.

Directors' Obligations

A sound business organization desiring to raise capital for legitimate purposes and expecting only a fair and equitable price from the purchaser has nothing to lose by giving to the investor such complete and accurate information. The statement that must be given out in order to sell securities need be signed and sworn to by only three-fourths of the directors. This is one of the late revisions in the bill and an important improvement over the original draft. While it is true that it is entirely proper for directors to be intimately acquainted with the affairs of the company served it is not always a practical matter for *all* directors to be so informed. Important men, for example, in the banking world are in urgent demand to serve as directors on many corporations because of the valuable advice their experience enables them to impart. Obviously such men serving on many Boards could not intimately acquaint themselves with the affairs of all these corporations and would naturally in many cases be unwilling to serve if, under the law, they were held personally responsible for all statements issued by the company. With 25 per cent of the directors released from this responsibility it will be possible for corporations to include in their directorate a sufficient number of men of this type to furnish financial guidance and advise as regards the broader policies of the corporation.

This provision as it now stands should work no undue hardship. In fact it may be viewed as a constructive development for undoubtedly many companies now have included among their directors men who have little interest in and are of no value to the organization. With personal responsibility involved a lot of this dead wood will automatically be eliminated and give opportunity to more valuable personalities. The Securities Act should also be a help to legitimate business in that it will go far to destroy competition in raising capital by unscrupulous promoters and unsound enterprises. For example, securities that are speculative and have no investment status must be sold for what they are and not dressed up to deceive the public as to their true character.

When the enormous sums of money that are drawn from the public every year by practically worthless promotions are taken into consideration it can readily be realized that any severe check given to this drain will undoubtedly create just so much greater a demand for the better grade of securities the sale of which is a real benefit to the industry of the country.

From the viewpoint of the investor, the Securities Act can literally be regarded as the dawn of a new era. It offers him a protection that he should

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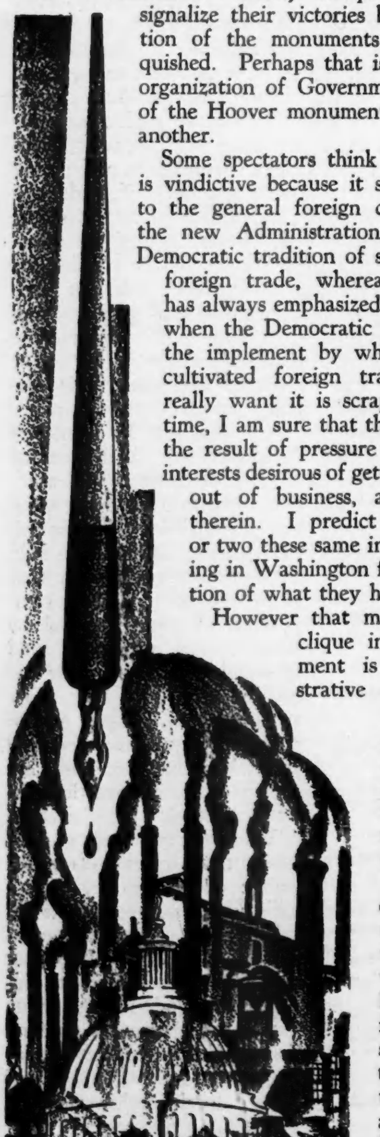
What the Securities Act Will Do to Give Greater Protection to the Investor

1. **Detailed financial statements must be submitted to all purchasers.**
2. **Three-fourths of directors must assume responsibility for statements made.**
3. **Investment of directors in company must be public information.**
4. **Names of all persons owning over 1% of stock being offered to be made public.**
5. **Purpose for which security is being sold to be stated and amount of commission and bonuses.**
6. **Fine of $5,000 and imprisonment for five years may be penalty for violation of provisions of act.**
7. **In case of false statement purchaser of security has right to cancel the transaction and to obtain the return of his money.**

Intimate Letters of a
& His New

Dear Perry:

A great part of the fruits of Herbert Hoover's twelve years as Cabinet member and President lies in ruins—the huge Bureau of Foreign and Domestic Commerce has been almost annihilated. Many conquerors have liked to signalize their victories by wholesale destruction of the monuments raised by the vanquished. Perhaps that is why in ruthless reorganization of Government scarce one stone of the Hoover monument has been left above another.



Some spectators think that the destruction is vindictive because it seems to run counter to the general foreign commercial policy of the new Administration, which follows the Democratic tradition of setting great store by foreign trade, whereas Republican policy has always emphasized domestic trade. Just when the Democratic policy gets a chance, the implement by which the Government cultivated foreign trade when it didn't really want it is scrapped. At the same time, I am sure that the scrapping is partly the result of pressure brought by business interests desirous of getting the Government out of business, after having put it therein. I predict that within a year or two these same interests will be lobbying in Washington for piecemeal restoration of what they have wrecked.

However that may be, the Harvard clique in the State Department is indecently demonstrative over the death of Commerce's foreign commercial attache and commissioner activities. The consuls, who are to assume these activities, can now go back to 100 per cent discharge of their social duties. No longer will they need to worry about some low-brow, shop-talking, government salesman showing them up by turning up in a day or two a trade opening they had overlooked for decades. When the new low tariff policy goes into effect, you will see foreign government trade agents pouring into this country on the same ships that take our commercial representatives out of theirs.

However, I suppose it is unnatural to expect that we can concur in all of the bold action which marks the present policy. By and large I am still for this vigorous and fearless government.

When I view the impossible things Roosevelt has accomplished in politics, administration and legislation, I begin to think he may score in economics and put the K.O. on this devilish depression.

In that mood, I am glad to see that you are so hopeful. I see my friend, James Truslow Adams, who predicted the great crash of 1929, now says our best years are just before us. I don't doubt it; every wave of prosperity in this country has always been higher than its predecessor.

The drive to reduce agricultural production has caused a move to junk all the research and scientific bureaus and sections of the Department of Agriculture. The kind of farmer we want now is one who can make one blade of grass grow where two grew. The scientists are forever showing farmers how to grow several blades where nature got along with one or none. Moreover, if the scientists are sunk, all the natural enemies of crops will rally and overproduction will flourish no more. I proposed to Secretary Wallace a summer school to teach good farmers how to become bad. The cost could easily be financed by a tax on consumers, who will soon be spending so much for food that they will not miss a little more.

I hear that the famous horse-route racket in the rural mail delivery system is to be exterminated. It seems that routes are about the same length they were when established in the horse-and-buggy age. A thirty-mile route then represented a fair day's work. An auto covers it easily in three or four hours—pay the same. General Farley purposes to lengthen the routes and shorten the payroll—the one to be doubled and the other to be halved. Bad news for employment but not so harmful politically. The carriers are perhaps a little Democratic, but the efflux of a few such desirable citizens among the 175,000 on the rollers will be more than offset politically by the clean sweep of rural postmasters of Republican antecedents.

I am sorry to say that lobbyists still sully the fair field of national legislation. Just as tricky as ever. Can't be trusted. Here's the way, I am told, we got our match tax:—Lobbyist told Senator X that it was a shame that free distribution of packets of paper-stemmed matches was ruining the legitimate industry. "What can be done?" the Senator asked. "Put a stiff tax on matches—all matches. That will kill off the free-distribution fellows. Your big match constituents can stand the tax. People must have matches." "It's as good as done." the Senator declared. It was, apparently, but on final passage somebody slipped in an amendment reducing the tax 75 per cent, and the Senator was put in the hard position of having to oppose a lower tax on his constituents' product.

Washington Journalist
York Broker

I've given you at different times a lot of good tips on what is going to happen in Washington. Here's another. We're going to have another co-ordinator—a super co-ordinator, a co-ordinator of government and business—an official who will drive industry, banking and government public works expenditures in one team—also labor. Already Friend Roper is starting something like that in the Department of Commerce. I wouldn't want the job. The co-ordinator will have a swell time co-ordinating national self-containment as expressed in farm legislation and foreign trade expansion as planned by the State Department. Or how about co-ordinating bank deposit guaranty and good banking management? You know what a magnificent record our bankers made when the responsibility for their deposits was entirely up to them.

Watch this inflation business. Pressure for cheap money is running high. That's why the House Democratic leaders tried—and failed—to get the caucus to vote to support a measure to require 218 votes—instead of 145—to get a bill out of committee. Left to themselves members will vote for anything from making legal tender of poker chips to paying off Government bonds with fiat money. You speculators will have a grand time if inflation comes. Common stocks will sky-rocket—but be sure you have a parachute before you take off. What do you recommend—and I don't mean parachutes?

Yours for whatever comes,

DON.

NEW YORK, April 17, 1933.

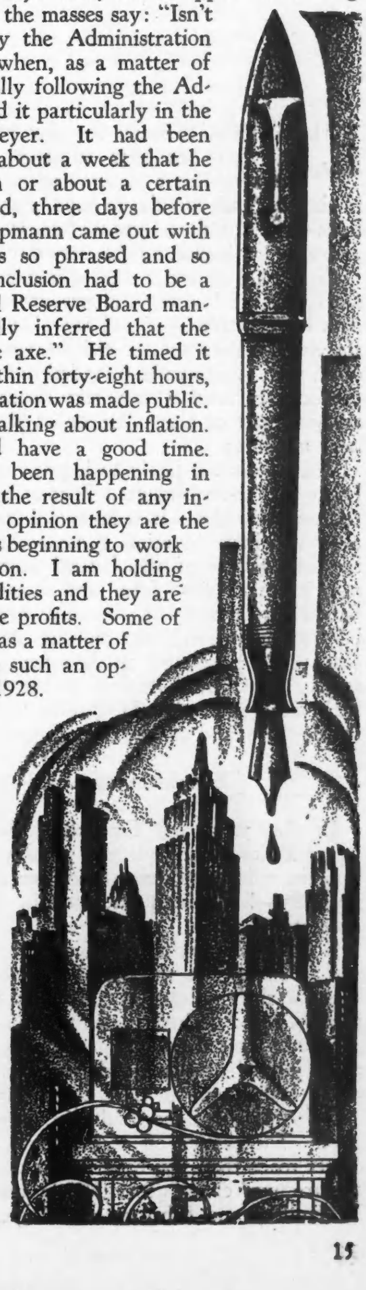
DEAR DON:

Did you hear what Jesse Isador Strauss, our new Ambassador to France, said when he arrived at Gare St. Lazare station in Paris? He said: "Galeries Lafayette, we are here." Maybe that does not make any sense to you, but the boys in New York got a good laugh out of it, Macy's in New York being the Galeries Lafayette of Paris.

Were you ever able to find out what Dick Whitney and Frank Roosevelt talked about at their session a few weeks ago? I have it that the President is going to permit Dick to run his own shop pretty well unmolested, but with a definite understanding that the Administration will step in at the very first provocation provided things happen on the Exchange which are of a provocative nature. That being the case, it is not difficult to understand why some brokers have been selling their seats. I have an awfully strong hunch that some of the recent seats were not sold because of a desire to get out of Wall Street but as a result of a command from the powers that it would be better so—or the seats would be sold for them.

I notice you say something about a man by the name of Herbert Hoover. It seems to me I used to hear of him some months ago, but out of sight, out of mind—not a person in the Street ever mentions his name.

Have you been reading Walter Lippmann and do you read him as closely as I do? I think he has a new racket. First he finds out from the inner circles of the Administration what direction a certain move is going to take and then he writes an editorial recommending steps along the same lines. A few days later, what Lippmann has suggester, transpires and the masses say: "Isn't it marvelous the way the Administration follows Lippmann," when, as a matter of fact, Lippmann is really following the Administration. I noticed it particularly in the case of Eugene Meyer. It had been rumored around for about a week that he was slated to go on or about a certain date. Lo and behold, three days before that date, Walter Lippmann came out with an article which was so phrased and so directed that the conclusion had to be a change in the Federal Reserve Board management and naturally inferred that the head should "get the axe." He timed it very well, because within forty-eight hours, Eugene Meyer's resignation was made public.



I see you are still talking about inflation. Well, go ahead and have a good time. Things which have been happening in our markets are not the result of any inflation at all. In my opinion they are the result of natural forces beginning to work in an upward direction. I am holding on to all my commodities and they are beginning to show nice profits. Some of my stocks are up too, as a matter of fact. I have not had such an optimistic feeling since 1928.

So far as the Street is concerned, it is also a little more cheerful. The small houses which haven't much capital are folding up and the large houses which have plenty of capital, are giving themselves a time limit as to how much longer they intend to lose capital before closing up. I heard tell of one house last week, where the floor partner said: "As soon as we lose

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¶ *Will Government Rail Regulation Lead to Government Ownership?*

How Will the Investor Fare Under Railroad Co-ordination?

Drastic Economies Envisaged as Dire Plight of Carriers Forces Federal Legislation

By Pierce H. Fulton

EMERGENCIES call for prompt and unusual action. This fact has been strikingly illustrated by what President Roosevelt has undertaken and actually done in the past two months to cope with various critical situations—most of them genuine emergencies—that have confronted him, beginning the very day he went into office.

Reopening of the banks, refinancing of farm and home mortgages are two big and urgent problems that the President has taken hold of and for which he has brought about the enactment of special and emergency legislation. Quite often such legislation is intended to be of only a temporary character to meet a temporary situation. Later it is done away in part or altogether, or its place is taken by permanent measures.

This is what is likely to happen in the case of both the banks and the mortgages. It may happen with respect to the railroads also. It is known that the President and his associates have in mind a comprehensive revision of the banking system of the United States. Apparently it is not intended that farm and home mortgages shall be handled indefinitely in the ways provided for in the bills before Congress in recent months. It is expected, of course, that, as the people get on their feet again they will be able to pay off their obligations to the Government, reassume their mortgages and take care of them as they always did before the period of depression began late in 1929.

Contraction and Co-ordination

In that year, and for several years before, expansion in pretty much everything—notably facilities and debt—was the rule. For some time now the keywords—of dire necessity—have been contraction, conservation and co-ordination.

Both policies or tendencies have been notably true of the railroads. In the boom days they did not materially increase their mileage but they did put millions into new terminals and de luxe passenger trains. Worst of all, they increased their dividends and greatly swelled their funded debt, instead of keeping disbursements on common shares down and buying in their bonds for redemption.

What has been the result of the appalling slump in earnings? The cutting off of dividends, except in the case of fewer roads than you have fingers on one hand, and failure to earn fixed charges for 1932, by more than $150,000,000. In January and February of this year together, only half the Class I carriers, reporting to the Bureau of Railway Economics, earned operating expenses and taxes. Even the Atchison, outstanding road in the United States, with its $41,000,000 cash and Government securities at the end of 1932, failed to meet these obligations in full for those two months.

Because of the slump in gross earnings from $6,360,000,000 in 1929 to $3,162,000,000 in 1932, and in net railway operating income from $1,274,000,000 to $334,000,000, the railroads have had to borrow millions from the banks, Reconstruction Finance Corporation and Railroad Credit Corporation, not only to meet fixed charges, but also taxes, refunding of bonds and, in some cases, ordinary vouchers—in short, to keep going, whether out of or in receivership.

Analagous to Banking Emergency

This, briefly stated, is the situation with respect to the railroads of the United States that has confronted the President during the first two months of his administration. As a consequence, the so-called co-ordinating plan has been decided upon. The proposed legislation, like that for the reopening of banks and refinancing of mortgages on farms and homes, is spoken of as being of an emergency character. Railway executives who have been in closest touch with this undertaking for the railroads think that upon its outcome will depend largely the character and extent of subsequent legislation for them.

There are one or more vital points of difference, however, between the position of the banks on March 4, last, and that of the railroads, in recent months, and even at the present time. The former were closed. A way had to be found to reopen all whose condition justified a resumption of business on either a partial or full basis.

The railroads are still running. They have not closed down. They can't unless permitted by the Interstate Commerce Commission to do so. Under their charters they must continue to give service. With them the big problems are to find practical ways of reducing operating expenses, perhaps funded debt, and also of increasing traffic, so that they can keep going and earn their own way.

These are the big things that are to be attempted under the co-ordinating scheme, which will include many subordinate features yet to be worked out. It calls for a government man—probably Joseph B. Eastman, one of the most prominent members of the I. C. C.—to serve as a

Federal Co-ordinator—and several regional co-ordinators, probably men with railway experience, if not holding positions as executives at the time of their appointment. They are to tackle the problems at first hand in their respective territories. Where they may be unable to get the desired results appeal is to be taken to the Federal Co-ordinator, who is to be clothed with ample authority to force the roads, if necessary, to do what is believed best under the circumstances. In some general respects the scheme is similar to the plan under which the railroads were operated by the Government during the World War. Then there was a Government man at the head with the title of "Director General" and a prominent railroad executive as director of each of the geographical regions into which the railroads of the country were grouped.

The main objects in the two instances are quite radically different. Under Government operation during the World War the primary goal was to move the traffic arising out of war demands, as expeditiously as possible. Railway executives had admitted their inability to do this satisfactorily. That is why the Government assumed operation of the properties.

The second goal was to serve the public by moving all other traffic as satisfactorily and profitably as possible. The Government gave the railroads a guarantee when they took over the properties. Today, as the Government steps in, under the co-ordinating plan, the main object is to help the railroads to be self-sustaining in the first instance and in the second to earn a profit. There is no special volume of traffic to be moved, as during the war.

Future Borrowing Difficult

Obviously the railroads cannot keep going if they are to continue unable to earn fixed charges and even operating expenses. Those that have borrowed heavily already cannot afford to pile up more debt. In most cases of that kind the collateral has about, if not actually, run out. The Government cannot continue to lend indefinitely. Ways must be found to reduce expenses and debt and increase traffic if the railroads are to remain under private ownership and operation—where it has been conclusively demonstrated they should be. It will be interesting in the extreme to see what steps will be taken to reach the first and third goals. The second may not be taken up under the co-ordinating plan.

The very word co-ordination signifies putting together. Many critics of railroad management in the last few years have maintained that this process should be applied first of all to passenger train service, passenger and freight terminals, particularly in the large cities. Certain it is that during this period of continued slump in traffic and earnings there has been much more space in the "crack" through passenger trains and in the passenger terminals than the traffic at the time at least justified.

Fechner Photo from Nesmith

Avoiding Duplication

Various suggestions have been made for lessening the expense of the service in these two respects. The one most generally heard with regard to trains has been for competing roads to "stagger" those running between the large centers such as New York and Chicago or New York and St. Louis, and leaving at or about the same time. While this idea seems feasible to the casual observer or even superficial student of railroad affairs, experienced railroad men know that it is not nearly as practical or easy of accomplishment as would seem at first glance.

In discussing this matter with the writer a few days ago a prominent railway executive said: "It should be remembered that passenger train schedules are not arranged solely or even chiefly for passengers going straight through from the starting point to the end of the road, but rather for the traffic originating at the intermediate points and received from connecting lines. This traffic is generally larger than the through traffic.

"It would be all right for passengers going straight through from New York to Chicago, to take a Pennsylvania train if the New York Central were to take off a competing train leaving at the same hour, or vice versa. But this plan would not work at all for passengers at most of the intermediate points on these two lines, between New York and Chicago. New York Central goes north from New York City to Albany, thence westerly across the state to Buffalo and on to Chicago. Pennsylvania takes a southwesterly route from New York to Philadelphia, thence to Buffalo, Washington, Harrisburg and Pittsburgh and westerly to Chicago. Neither system can serve more than a few of the largest intermediate points on the lines of the other."

On the other hand in the Pacific Northwest, it has been possible for the Union Pacific, Northern Pacific and Great Northern to work out a pooling operation whereby passenger trains between leading points was first cut from 9 to 6 and application was made recently to the I. C. C. for authority to further reduce the number to 3—one for each road each way a day.

W. B. Storey, president of Atchison, Topeka & Sante Fe Railway, says there are two outstanding ways in which substantial economies can be effected through a well-directed co-ordinating plan. In a recent chat with the writer he said:

"Much has been said about the large sums of money that can be saved through direct routing of freight traffic. I think most of the estimates have been greatly exaggerated. Let me give you one illustration of what could be done in this direction. The Atchison moved a carload of freight over one division of our sys-

tem. Acting upon the orders of the shipper, it was transferred to another road. Then because of the interest of a powerful group of men in certain other lines, that car of freight had to be switched to those lines, in order that that group might derive revenue from the haul. Eventually that car come back to the Atchison lines. By the time it reached its destination it had travelled approximately 600 miles, when 300 by direct routing, would have taken it there. No one can deny that such gross circuitous routing should be eliminated once and for all.

"Remember this point, however. While the railroads, in their eagerness to get the longest haul possible, are sometimes to blame for circuitous routing, this practice is due more to orders of the shippers, which must be carried out."

The Solution of Railroad Difficulties

1. Prompt authorization by the I. C. C. to abandon unprofitable mileage

2. Allow the strong roads to make their own way without requiring their aid for weaker lines

3. Require comprehensive readjustment of top-heavy capital structures

4. Repeal of Recapture and Valuation clauses of the Transportation Act

In discussing this question of circuitous routing further, Mr. Storey added: "The saving in money from shipping freight over one line because it is a few miles shorter than a competing line, would be relatively small. That cannot reasonably be called 'circuitous routing.' In taking up this question special attention should be given to such instances as I have outlined to you. The other is only a feature of healthy competition." He was then informed that recently a Government railroad "expert" told a group of prominent railway executives that because the Pennsylvania has the shortest route between New York and Chicago all through freight between those points should go over that road. Mr. Storey's reply was a significant smile. He then outlined another way in which large savings can be effected through the co-ordination of terminal facilities and services:

"If the Atchison wants to deliver a carload of freight in Kansas City to the Kansas City Southern Railway, as it often does, we have to switch that car all the way across the city. If, in turn, the Kansas City Southern has freight for our lines, it has to do the same. As a matter of fact, the two roads have entered into a reciprocal agreement whereby when the one delivers a car of freight it takes back whatever cars may be waiting for shipment over its lines. This simple arrangement is saving quite a bit of money. It should be carried further. It takes as long to switch a car of freight between the two terminals of those roads in Kansas City as it would to haul the car 34 miles on the main line.

"The same situation exists in that city between our road and the Missouri Pacific. All three of us have freight terminals in different parts of the town. There should be one large central freight terminal in every important city where, because of geographical location and other conditions, it would be at all possible or feasible. Into that terminal each road should take the freight consigned to that city, and also to other roads entering there, and each road should take away the cars consigned to it from other lines.

"That, would mean a tremendous saving in the case of cities with such a situation as I have outlined as existing in Kansas City. But, of course, nothing of that kind can be undertaken now, as it would involve large sums of money which can't be raised. I repeat, however, that the biggest economies can come from the elimination of gross circuitous routing of freight and a re-arrangement of freight terminals in the big cities."

High Salaries Must Go

While it is not possible to forecast the pending legislation and to detail all the ways in which an attempt is likely to be made to further reduce operating expenses through co-ordinating physical facilities, it is probable that steps will be taken to eliminate competitive practices of various kinds, which under the conditions that have existed, have been regarded as necessary, but which are not likely to be so regarded under the scope of the co-ordinating plan. To accomplish anything worthwhile in this respect will not be an easy task, as it will involve features of railroading over which those who run the railroads are most jealous. Already Harry Guy Taylor, Commissioner for the Western Railroads, has been able to straighten out several such situations and to effect substantial economies.

There have been distinct indications in Washington dispatches for some little time that the salaries of the highest paid executives are to be radically reduced, as a part of the co-ordinating plan. Some of them are still receiving from $75,000 to $100,000 or more. It has been proposed by some of the railroad advisors of President Roosevelt, that all such salaries be reduced to $20,000 to $25,000 a year. While it may be granted that $150,000 was too high a salary for a top railway executive, even in good times, and on a railroad only moderately strong, there is reason to doubt the wisdom of making such a radical reduction as just indicated.

To present and prospective owners of railroad securities, the vital questions are—How much money is to be saved by the so-called co-ordinating plan? To what extent will the financial position of the companies, the intrinsic value and market quotations for the securities, be increased? Is this plan to be the forerunner of general railroad consolidation or government ownership?

Amount of Saving

As already intimated, on the authority of President Storey, the saving in money from the co-ordinating plan, is not likely to be nearly as large as has been estimated by advisors of President Roosevelt and others. Railway executives place the maximum figure at about $100,000,000 a year. On the government side it has been made as high as $700,000,000. Of course, anything of a practical character that can be done to save $100,000,000 a year in the operation of the Class I railroads of the United States, should be done. That amount would lack only a little more than $50,000,000 of covering the deficit of the railroads in 1932 on their fixed charges. A small increase in traffic would make up the other $53,000,000.

Carloadings of Class I railroads in recent weeks have been a little under 500,000. Some 80 per cent of the carriers have not earned their fixed charges so far this year. Still, last October, with loadings around 600,000 cars a

(Please turn to page 43)

Dollar Protection in Foreign Bonds

Obligations of Foreign Debtors of High Credit Standing and Making Payments in Gold Offer Interesting Possibilities

By DR. MAX WINKLER

AN examination of various issues of the so-called fixed income bearing variety outstanding in the United States reveals that while the amount of domestic bonds which contain the so-called gold clause is relatively restricted, practically all obligations which have been sold in the United States on behalf of foreign governments, states, municipalities, and corporations are payable in gold of the weight and fineness existing on the date when such obligations were created. This was done primarily for the purpose of guarding the investor against debasement of gold coins through the lowering of their gold content.

The abandonment of the gold standard, and the possible depreciation in the value of the dollar in relation to gold may not change materially the status of an American holder of domestic securities, regardless of whether or not they contain a gold clause. It is, of course, possible that holders would, in the event of the impairment of their rights, take their claims into the courts, which may perhaps be expected to uphold decisions rendered in the past on several occasions.

On the assumption that the gold clause would be deemed valid, it would mean the passing of practically every company, which had embodied such clause in its obligations, into the hands of a receiver. In the first place, if they could not get gold to pay their interest with, they would be in default. Moreover, even if they were allowed to pay in the equivalent of a rapidly rising value of gold, it would be almost impossible for them to keep their prices advancing at the same rate. If gold appreciated, say, 25 per cent, fixed charges would at once rise by a similar amount—whereas it might take some time for profits to follow.

Should the courts insist upon the enforcement of the gold clause, utter chaos would inevitably follow. It is, therefore, within reason to assume that, so far as domestic corporations are concerned, the gold clause may be said to offer only problematical protection against currency depreciation.

The situation, however, is somewhat different with respect to foreign commitments. A concrete case will illustrate this: In June, 1927, there was offered in the Canadian market an issue of bonds to the amount of 11 million dollars (Canadian) on behalf of the French National Steamship Lines, guaranteed as to principal, interest and sinking fund by the French Government. Payments were scheduled to be made in Canadian gold coin. So long as the Canadian dollar was quoted at par in relation to gold, the company remitted, and bondholders received, Canadian dollars. Following the depreciation in the value of the latter, bondholders insisted that the obligor adhere strictly to the provisions of the loan contract—that is, payment in gold or its equivalent—whereupon the French company promptly agreed (*Please turn to page* 48)

Sound Foreign Bonds Payable in Gold or Equivalent

Issue	Recent Price	Current Yield	Remarks
Austria 7s, 1943	87½	8.00%	Guaranteed in varying percentages by leading European Powers, including Great Britain, France, Holland, Italy, and Sweden.
Akershus 5s, 1963	65	7.69	Obligation of important District in Norway, with unblemished fiscal record.
Antwerp 5s, 1958	71¼	7.02	Obligation of one of Europe's foremost ports, with an excellent fiscal record.
Canada 4½s, 1936	95½	4.71	Fundamentally, one of the soundest foreign investments.
Copenhagen 5s, 1952	63½	7.87	Obligation of Denmark's capital, with perfect record.
Denmark 4½s, 1962	66⅛	6.81	Fundamentally sound foreign issue.
Framerican 7½s, 1942	95⅝	7.85	Guaranteed by one of France's foremost industrial enterprises.
Italian Credit 7s, 1947, "B"	90	7.78	Guaranteed by Italian Government.
Norway 6s, 1952	85½	7.02	Fundamentally sound foreign issue.
Oslo Gas & Electric 5s, 1963	65½	7.63	Guaranteed by Norway's capital, whose fiscal record is perfect.
Paris-Orleans 5½s, 1968	100	5.50	Guaranteed in effect by the French Government.
Rotterdam 6s, 1964	95⅛	6.31	Obligation of Holland's principal seaport.
Sweden 5½s, 1954	89½	6.15	One of Europe's soundest investments.
United Kingdom 5½s, 1937	104½	5.26	Obligation of country whose credit has always stood high.

The Magazine of Wall

THE MAGAZINE OF WALL STREET'S Bond Appraisals of active and important bonds is presented in two parts. The sections alternate with appropiate alterations and additions, so that holders and prospective buyers of bonds may be constantly informed as to the effect of developments in the largest number of issues.

It is naturally understood that all the issues mentioned do not constitute recommendations, although the relative merit of each is clearly indicated. For those who desire to employ their funds in fixed-incoming bearing securities, we usually "star" those which appear to us the most desirable on an investment basis. But owing to the uncertainty, which has grown out of the prospect of inflation, we are not, at this time, recommending bond investment purchases.

Inquiries concerning bonds should be directed to our Personal Service Department.

Railroads

Company	Total funded debt (mil'ns)	Amount of this issue (mil'ns)	Fixed Charges times earned† 1931	Fixed Charges times earned† 1932A	Price Call‡	Price Recent	Yield to Maturity	COMMENT
Central R. R. of N. J. Gen. 5s, 1987	54	50	1.0	.7	N C	82	6.1	Represents large proportion total debt. Good grade.
Chicago, Burlington & Quincy R. R.								
Gen. 4s, 1958	220	83	2.4	1.2	N C	78	5.6	High grade investment.
1st & Ref. "A" 5s, 1971	220	70	2.4	1.2	107½ '42*	80	6.4	Junior to issue above.
Illinois Division 3½s, 1949	220	84	2.4	1.2	105	82	5.2	An investment of the highest grade.
Erie Railroad								
Cons. Prior Lien 4s, 1996	283	35	.9	.8	N C	67	6.1	Even in the event of reorganization this issue should be safe.
Cons. Gen. 4s, 1996	283	81	.9	.8	N C	46	8.8	Junior to issue above.
50-Yr. Conv. 4s, 1953	283	30	.9	.8	N C	42	11.4	Prior liens total $143 million.
Ref. & Imp. 5s, 1975	283	109	.9	.8	105*	28	..	Junior to three issues above.
Chicago & Erie 1st 5s, 1982	283	12	.9	.8	N C	..	..	Well secured obligation.
Denver & Rio Grande Western R. R.								
Ref. & Imp. "B" 5s, 1978	120	19	1.0	.5	102½*	16	..	Speculative.
General S. F. 5s, 1955	120	30	1.0	.5	105	11	..	Junior to issue above.
Rio Grande Western 1st 4s, 7.1.39	120	15	1.0	.5	N C	..	..	Undisturbed 1923/24 reorganization, but currently none too strong.
Denver & Rio Grande 4s, 1.1.36	120	42	1.0	.5	N C	30	..	Though undisturbed 1923/24, both these issues are now speculative.
Rio Grande Western 4s, 1949	120	14	1.0	.5	100	34	14.9	
Northern Pacific Ry.								
Prior Lien & Land Grant 4s, 1997	309	106	1.6	.9	N C	75	5.4	High grade bond.
Gen. Lien 3s, 2047	309	55	1.6	.9	N C	48	6.3	Junior to issue above.
Ref. & Imp. "B" 6s, 2047	309	145	1.6	.9	110 '36	63	9.5	Junior to two issues above.
Pennsylvania R. R.								
Cons. 4½s, 1960	592	93	1.3	1.2	N C	94	4.9	High grade investment issue.
Gen. 4½s, 1965	592	285	1.3	1.2	N C	76	6.2	Junior to issue above, but still better grade.
Sec. 6½s, 2.1.36	592	60	1.3	1.2	N C	96	8.4	Secured pledge gen. mtge. bonds.
Sec. 5s, 1964	592	50	1.3	1.2	105*	74	7.1	Secured pledge div-paying stocks.
Deb. 4½s, 1970	592	60	1.3	1.2	102½ '40*	62	7.6	Unsecured by mortgage, but the earning of fixed charges reassuring.
Allegh'y Val. Ry. Gen. (now 1st) 4s, '42	592	20	1.3	1.2	N C	91	5.3	Strong investment issue.
Pennsylvania Co. Tr. Ctfs. "E" 4s, 1952	592	28	1.3	1.2	N C	..	..	Assumed Penn. R. R. Better grade.
GUARANTEED ISSUES								
Connecting Ry. of Phila. 1st 4s, 1951	..	8	..	..	N C	..	..	High grade issue.
Northern Central Gen. & Ref. "A" 5s, 1974	..	14	..	..	N C	..	..	Better grade.
Pennsylvania, Ohio & Detroit 1st & Ref. "A" 4½s, 1977	..	28	..	..	102½*	79	5.8	Reasonably strong issue.
Long Island R. R. Ref. 4s, 1949	49	27	2.9	2.1	N C	79	6.1	Better grade investment.
New York Connecting R. R. 1st "A" 4½s, 1953	..	27	..	..	105	88	5.5	New Haven also guarantees. Better grade.
Phila., Baltimore & Wash.								
1st 4s, 1943	53	16	..	..	N C	94	4.8	High grade bond.
Gen. "C" 4½s, 1977	53	32	..	..	N C	81	5.7	Junior to issue above.
Pitts., Cin., Chic. & St. Louis								
Con. "A" 4½s, 1940	128	41	..	..	N C	..	..	High grade investment.
Gen. "B" 5s, 1975	128	70	..	..	N C	76	6.7	Junior to issue above, but still strong.
Richmond-Wash. Coll. Tr. 4s, 1943	..	10	..	..	105	..	..	Good grade investment.
Reading Co.								
Gen. & Ref. "A" 4½s, 1997	120	74	1.4	1.4	105	76	6.0	Good sound bond, tho' representing large proportion total debt.
Jersey Central Coll. 4s, 1951	120	21	1.4	1.4	105	..	..	Collateral has had substantial decline in market value.
St. Paul Un. Depot 1st & Ref. "A" 5s, 1972	15	15	..	..	110 '42*	95	5.3	Guarantors include No. Pacific, Gt. North'n, St. Paul, the Burlington and the Rock Isl.
Southern Railway								
1st Cons. 5s, 1994	288	92	.7	.3	N C	60	8.4	Entitled only fair rating.
Dev. & Gen. 4s, 1956	288	130	.7	.3	N C	25	..	Junior to issue above.
St. Louis Div. 1st 4s, 1951	288	12	.7	.3	N C	45	11.1	Prior in lien to issue above, but none too strong.
East Tenn., Va. & Ga. 1st 5s, 1956	288	13	.7	.3	N C	70	7.8	Reasonably good divisional issue.
New Orleans Terminal 1st 4s, 1953	288	14	.7	.3	N C	49	9.9	Fairly sound issue.

Public Utilities

Company	Total funded debt (mil'ns)	Amount of this issue (mil'ns)	1931	1932A	Call‡	Recent	Yield to Maturity	COMMENT
Carolina Power & Lt. 1st & Ref. 5s, '56	46	39	1.6	1.4E	105*	54	10.2	Medium grade only.
Central Illinois Public Service 1st & Ref. "F" 4½s, 1967	56	56	2.0	1.6	104*	50	9.4	Issue only medium grade.
Cleveland Electric Illuminating Co.								
1st 5s, 1939	40	30	4.2	3.9	103*	102	4.6	An investment of the highest class.
Gen. "A" 5s, 1954	40	22	4.2	3.9	105	102	4.8	Junior to 1st 5s, but still strong.

Street's Bond Appraisals

Public Utilities (*Continued*)

Company	Total funded debt (mil'ns)	Amount of this issue (mil'ns)	Fixed Charges times earned† 1931	Fixed Charges times earned† 1932A	Price Call‡	Price Recent	Yield to Maturity	COMMENT
Cons. Gas El. Lt. & Pwr. of Baltimore								
General 4¼s, 2.14.35	64	14	3.4	3.1	N C	100	4.5	Senior to issue below.
1st Ref. 4s, 1981	64	41	3.4	3.1	105*	92	4.4	High grade bond.
Safe Harbor Water Pr. 1st 4½s, '79	21	21	..	..	105*	94	4.8	Con. Gas guaranties. Strong issue.
Illinois Bell Telephone 1st & Ref. 5s, 1956	58	49	4.9	4.2	105*	102	4.8	Investment of the highest class.
North American Deb. 5s, 1961	327	25	2.1	1.7	104¾*	64	8.3	Better grade holding company obligation.
Pacific Gas & Electric Co.								
Gen. & Ref. 5s, 1942	306	97	2.4	2.3E	105*	101	4.9	Entitled to a high rating.
1st & Ref. "F" 4½s, 1960	306	170	2.4	2.3E	105*	87	5.4	Junior to issue above and prior lns. thereto.
California Gas & Electric unif. & Ref. 5s, 11.1.37	306	11	2.4	2.3E	110	102	4.5	Highest grade.
Sierra & San Francisco Power								
1st 5s, 1949	306	11	2.4	2.3E	110	95	5.5	Fairly strong investment.
2nd 5s, 1949	306	8	2.4	2.3E	105	..	..	Junior to issue above.
Great Western Pwr. 1st 5s, '46	20	20	2.3	1.8E	106	97	5.3	Better grade.
San Joaquin Light & Power unif. & Ref. "D" 5s, 1957	35	33	1.9	1.6E	104*	..	..	Entitled to a good rating.
Public Service Co. of Northern Illinois 1st & Ref. 5s, 1956	131	84	2.5	1.7	110	66	8.3	Mostly pledged under 1st Lien & Ref. issues.
1st Lien & Ref. "F" 4½s, 1981	131	100	2.5	1.7	102½*	61	7.5	Merits reasonably good rating.
Public Service Corp. of N. J.								
Perpetual 6% Certificates	210	19	2.9	3.0	N C	106	5.7	Secured pledge stock of subsidiaries. Good grade.
Public Service Electric & Gas								
1st & Ref. 4½s, '67	115	91	3.8	3.8	104½*	98	4.6	High grade bond.
United Electric N. J. 1st 4s, 1949	115	19	3.8	3.8	N C	97	4.3	Of the highest class.
Hudson County Gas 1st 5s, 1949	..	11	3.8	3.8	N C	..	..	Strong investment.
South Jersey G., El. & Trac. 1st 5s, '53	..	13	..	..	N C	..	..	Better grade bond.
J. C., Hoboken & Paterson Street 1st 4s, 1949	30	13	.9	..	N C	..	..	Traction issue. Second rate.
Cons. Tract. of N. J. 1st 5s, 6.1.33	..	14	.9	..	N C	..	..	Outlook obscure.
Shawinigan Water & Power 1st & Coll. "A" 4½s, 1967	88	88	2.0	1.5	103*	56	8.5	Only medium grade.
Southern California Gas Co.								
1st & Ref. "B" 5½s, 1952	27	12	1.5	1.3	102½	..	..	Better grade bond.
1st Mtge. & Ref. 4½s, 1961	27	21	1.5	1.3	105*	83	5.7	Caliber slightly under issue above.
Tennessee El. Pwr. 1st & Ref. "A" 6s, '47	47	35	2.4	1.9	105*	77	8.9	Reasonably strong investment.

Industrials

Company	Total funded debt (mil'ns)	Amount of this issue (mil'ns)	1931	1932A	Call‡	Recent	Yield to Maturity	COMMENT
Aluminum Co. of America Deb. 5s, 1952	38	36	..	..	105*	82	6.7	Real caliber difficult to ascertain, Probably better grade.
American Radiator Deb. 4½s, 1947	10	10	1.3	def	101½*	83	6.4	Business hard hit. Strong bond, however.
Armour & Co. (Ill.) R. E. 1st 4½s, 6.1.39	96	40	def p	.2 p	102½	79	9.1	p Years to 10.31. Secured by valuable assets, but business continues poor.
Armour & Co. (Del.) 1st 5½s, 1943	56	56	def p	.2 p	105	75	9.4	Guaranteed by Illinois co.
Com'l Investment Tr. Conv. Deb. 5½s, '49	20	20	4.5	4.2	110*	100	5.5	Issue with substantial investment merit.
Dodge Bros. Deb. 6s, 1940	44	44	1.7f	def f	106*	77	10.8	f Earnings Chrysler. Medium grade only.
Goodyear Tire & Rubber 1st & Coll. 5s, '57	60	55	2.2	.8	103*	82	6.5	Good grade, tho business depressed.
International Cement Conv. Deb. 5s, 1948	18	18	2.4	def	103¼*	62	9.9	Governmental projects make for a somewhat better outlook.
National Steel Corp. 1st Coll. 5s, 1956	42	39	3.1	1.8	105*	81	6.6	Industry hard hit—Medium grade.
Philadelphia & Read. Coal & Iron								
Ref. 5s, 1973	59	28	1.5	def	105	51	10.0	Business has been hard hit.
Conv. Deb. 6s, 1949	59	31	1.5	def	110 '34*	38	..	Junior to issue above.
Procter & Gamble Deb. 4½s, 1947	11	11	48.3k	20.2k	105*	101	4.4	k Years to 6.30. High grade.
Shell Union Oil Deb. 5s, 1949	90	90	def	..	103*	72	8.2	Now medium grade only.
Shell Pipe Line Deb. 5s, 1952	27	27	11.1	10.0E	102½*	74	7.6	Shell Union guarantees. Charges well covered.
Swift & Co.								
1st 5s, 1944	55	22	3.5 p	def p	102½	100	5.0	p Years to 10.31. Well secured.
5% Notes, 1940	55	30	3.5 p	def p	102*	91	6.6	Medium grade industrial bond.

Short Term Issues

Company	Due Date	Amount of this issue (mil'ns)	1931	1932A	Call‡	Recent	Yield to Maturity	COMMENT
Atlantic Refining Deb. 5s	7.1.37	14	1.6	5.9	N C	97	5.8	Good grade investment.
Buffalo Gen. El. 1st Ref. 5s	4.1.39	7	3.5	2.6	105	102	4.6	High grade bond.
Chicago Gas, Light & Coke 1st 5s	7.1.37	10	2.9	..	N C	100	5.0	High grade investment.
Gulf Oil Deb. 5s	12.1.37	28	def	1.4	103½	94	6.5	"Medium to high" grade issue.
Humble Oil & Refining Deb. 5s	4.1.37	20	2.1	..	102	102	4.4	Wide margin earned last year over interest requirements. High grade.
Mineapolis Gen. El. 1st 5s	12.1.34	6	2.9g	..	110	101	4.3	g Earnings N. S. Pr. High grade.
New York Telephone 1st & Gen. 4½s	11.1.39	61	4.7	3.7	110	100	4.5	Gilt-edged.
Pacific Tel. & Tel. 1st & Col. 5s	1.2.37	27	4.5	4.1	110	102	4.4	Of the highest grade.
V'ginia Rail & Pr. 1st & Ref. (now 1st) 5s	7.1.34	11	3.1	..	105	99	6.0	Strong issue.

† Fixed charges times earned is computed on an "over all" basis. In the case of a railroad, the item includes interest on funded debt and other debt, rents for leased roads, miscellaneous rents, etc.; in the case of a public utility it includes interest on funded and unfunded debt, subsidiary preferred dividends, minority interest, etc. ‡ An entry such as 105 '36 means that the bond is not callable until 1936 at the price named. * Indicates that the issue is callable as a whole or in part at gradually decreasing prices. E Estimated. A Actual earnings, tho in some cases based upon preliminary reports.

The Security Buyer Looks At the Department Store

He Asks: Investment or Speculation?

By A Retired Merchant

As told to

Thomas Calvert McClary

EXCEPTING a ship upon the high seas, there are few autocracies in the business world so absolute as a department store. Unfortunately, the power of the gods that sit enthroned amidst their vassals on the top floors of many emporiums is too often derived more from stock control than from business acumen or merchandising success. Yessing executives know this fact and, being men and women of wit and brain as well as wishing to hold their jobs, they carry out orders in their own ways and try to make the best of matters. The result is liable to be a hodgepodge of brilliant methods, systems and ideas uncoordinated or scrambled by further individualism. For this reason, it is difficult to apply broad generalities to department stores. Each is individualistic with idiosyncrasies often dependent upon the distance of the store or department from the ever-threatening omnipotence of the boss or stock control. There are such contradictions as R. H. Macy. Within the trade, that store's system of super-super efficiency, and the trouble it causes, is a standing joke. Yet, R. H. Macy make profits.

There is little that can be done about this state of affairs for nobody has yet succeeded in wresting control from the high moguls of the merchandising world, nor has anybody ever attempted to operate a department store iconoclastically. For that matter, nobody is sure that it would work, and two-figure millions, with the possibility of upsetting the entire retail trade, are dangerous explosives to experiment with. One New England firm grew into one of the greatest department stores in the country while under the supreme influence of a daring adventurer in new merchandising ideas. But now that his influence wanes (through stock manipulation), experiment with radical ideas has disappeared from the store's policy. The controlling group lean to "conservatism" and broil in their own fat. On the other hand, the business is well, if not brilliantly, managed, whereas the passion for new fangled notions which emanates from the man that built the store might now cause its collapse.

It is a short step from profit to loss in retailing, and the security holder should (although he seldom does), judge the effectiveness of existing management against full potential effectiveness and the possibilities of operation under other available management. He should also pay heed, if his investments are on a long pull basis, to the general subordinate executive staff of a store, and to where control will lie in the event of death of any controlling member. If, as in one store, it might fall into the hands of an untrained, disinterested son, the percentage of risk is considerably increased. In the first place, ousting a department store president, who has any stock control to speak of, is a difficult matter. In the second place, merchandising requires more specialized experience than the majority of industries. Men with a merchandising slant are not easily found to fill chief positions. If found, they are liable to be fought by older executives. New ways of thinking and working are liable to be frowned upon. Department store higher executives are liable to be self-made men, set in their ways, and a little skittish to younger workers. By and large, they are half pigheaded and half in the grave. It was something of a shock to me, when I retired from my store a few years ago, to hear a young executive say, "Well, now that the old dodo is out of the place, maybe we can pep the dump up." But I must admit the younger group have certainly changed the business—and done so profitably.

I mention these things for the security holder needs to consider them in relation to his investments. He may believe that the average department store head is nothing more than a glorified shop keeper, swept into affluence on the wave of buying that has engulfed the country for the past twenty years, who imagines himself superbly as a merchant prince. But, who will do a

Leading Listed Department Store Stocks

Company	Earned per Share† 1930	1931	1932	Recent Price	Dividend $	Yield %
Abraham & Straus	4.16	3.16	1.11	21	1.20	5.7
Arnold Constable	def	0.48	def	2	..	..
Associated Dry Goods	2.02	def	def	8	..	..
Best & Co.	4.15	3.02	1.05	17	..	..
Federated Department Stores	2.34	1.37	NF	15	.60	4.0
Gimbel Bros.	nil	def	def	2	..	..
Hahn Department Stores	0.71	def	def	2	..	..
Interstate Department Stores	2.03 §	1.75 §	def	2	..	..
Macy (R. H.) & Co.	4.81	3.63	2.20	44	2.00	4.6
May Department Stores	3.03	1.75	0.77	19	1.00	5.2

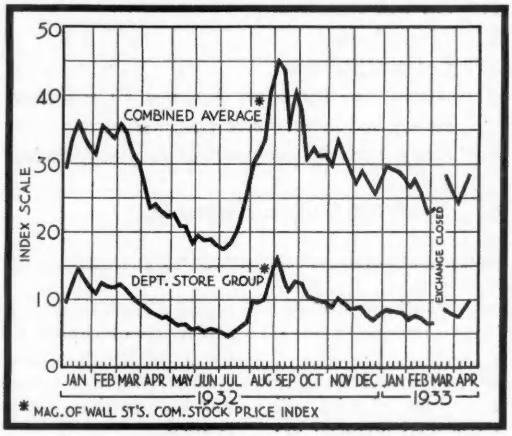
† Year ended January 31 of following year. § Calendar year. NF Not available.

better job in a highly specialized field?

Considering the peculiar character of department stores; that a large bulk of their sales lie outside the field of actual necessities to life; that it is impossible for them to reduce operating, sales and administrative costs to anything like the extent achievable in many industries; that there has been ten times the former competition for every consumer dollar during the past year; that the public has nearly pinched its nickels in two before spending them for anything other than bread and butter for some time; that wholesale and retail prices have dropped like a plummet since 1929; that a substantial percentage of stock has been sold of necessity at a profit loss if not at a net loss—considering these things, such reports as Best's and Macy's, are legitimate grounds for optimism. Best's, for example, in 1932 lost only 2½ per cent of unit sales under the previous year. While their sales volume decreased 19.47%, or something over two and half million, the amount compares favorably with the fact that the drop in general retail prices is estimated at not less than 20 per cent and in particular instances running to 40, 50 and 60!

It is estimated that average department store net losses for 1932 will fall under one per cent of sales. This, after charges and conservative deductions for amortization and bad debts. Many of the more progressive and better managed stores have held their own. Among the front ranks, a turn for the better is already discernible. In general, department stores have maintained dividends, written off losses, scaled down assets, increased operating efficiency, reduced overhead and greatly strengthened their financial positions. The more efficiently operated stores have continued to make profits through times when that cannot be said of many businesses. Almost every department store is carrying a low inventory and in a position to take immediate advantage of any business improvement or wave of buying. Reiterating that I am speaking broadly, and acknowledging that many a large and supposedly well operated department store could not stand over-close inspection into its books, I believe that the general policies of the bulk of department stores during the past three years has placed them in a most advantageous position to reap profits in the near future.

Today, the country, *en masse* and individually, is threadbare. I do not know of a single acquaintance that is not in need of some article of apparel or whose house does not need replacements and supplies. The time has come when the country has got to spend simply because its personal property is worn out. Last year, a new suit might have been a luxury or a set of new china was not absolutely essential to the house. This year, after three years of wear and tear on personal property, the suit is a necessity and the old china is smashed. Unemployed and those without incomes cannot be expected to buy. But there are billions of dollars in 13,250,000 savings accounts in this country and thirty odd million men and



* MAG. OF WALL ST'S. COM. STOCK PRICE INDEX

women at work. These people will buy, must buy, during the next twelve months. They must buy more than at any time during the past three years. Many of them will spend a great deal as soon as they are convinced that rock bottom prices have been reached. Department store merchandise has just about reached rock bottom. Any turn for the better should find housewives fighting for new merchandise. And I cannot help but feel that if we are unfortunate enough to have inflation, or even if its shadow looms too closely, present inventories will be bought off the shelves overnight.

From an investment standpoint the important consideration is that, by and large, the department stores have weathered the storm, are fairly liquid and not too heavily in debt to reap instant advantage from the wave of buying mindedness that must inevitably sweep the country. Even the slightest increase in sales, say one or two per cent, will show profits on the books of most stores. There is a point of minimum service beyond which the store cannot go no matter how far sales continue to drop. Department stores reached that point some time ago and still sales continued to drop. While it meant loss on the down swing, it will mean an increased ratio of profit on the upswing. It takes approximately the same staff to sell one hundred dresses as two hundred, for instance. Considerable mention has been made of the new methods for display that are rearing their heads, but on this score most stores have taken ample caution. The deductions for amortization of equipment are rather startling in many cases. I do believe that amortization of property and leaseholds should be carried forth more rapidly in order to enable the department store to move its location without showing loss if it proves necessary. But that is purely a personal opinion, and the matter is subject to the local outlook and population changes in the cities. So much for the brighter aspect of department stores. With the slightest upturn and with not too radically changed conditions, they should be among the first to show increased profits.

However, it seems to me that both past policies and outside influences place department stores in more of a speculative than an investment light. Just as the department store grew up from a peddler's pack and out of the specialty shops, so may other forms of retailing supersede the department store to some extent. One matter which is receiving little attention, but which seems to me of paramount importance, is that of wages. Department store wages have never been high. The leading stores have paid decently in recent years, but the second and third rate stores will work help at sweatshop wages. Inevitably this must arouse public antagonism if it does not call for actual legislation. One large New York store works "part-time" help from ten-thirty to five-thirty, six days per week, half hour daily for lunch, at a $9 wage. The same store works "extra" help from eleven to five-thirty, without lunch, at $7. In some other cities, wages are lower. Such conditions cannot continue for long without public condemnation. As far as legislation is concerned, department stores are lucky in being the holy cows of daily newspapers, and comparatively free from exposes and editorial criticism. But to a retail store, the good-will of the public is of almightly importance. And it is difficult to keep the morale of any organization at the high state necessary for sales work when even the most docile salesgirl begins to figure that

(*Please turn to page* 44)

Studies in Stock Speculation

Part VII. The Broad Principles of Successful Trading

By Frederick K. Dodge

The wide interest displayed in the various phases of trading which Mr. Dodge has taken up in this series of articles has brought forth many requests for an outline of his fundamental principles of market operation. In response he has made this seventh discussion general in character. It will be noted that the rules which he lays down are few in number and simple in character. It is believed that they will prove a valuable adjunct to his former articles which have appeared in the course of the past three months.— Editor.

Fundamental Rules of Trading

1. ***Do not over-trade.***
2. ***Limit losses.***
3. ***Let profits run.***
4. ***Avoid too large an interest in relation to capital in any one commitment.***
5. ***Keep risk in proportion to prospective gain.***
6. ***Trade with the main trend.***

IT is human nature to desire freedom of action and any attempt to run one's affairs by a long list of rules will generally prove unsuccessful. A so-called financial expert recently compiled 25 "never-failing" rules that a trader must follow in order to make a success. Who under the sun could constantly keep 25 rules in his head, much less follow them all? Any one who tried it would be so enslaved by routine he would feel like a prisoner in a chain-gang. As a matter of fact, many of the so-called rules for a trader that are concocted are not worth the effort necessary to remember them, for the reason that they only apply at times. Rules that appear to have merit under certain market conditions have no merit at all under other conditions. The same fault lies with the many systems of playing the stock market that are developed and ballyhooed from time to time. They work when conditions are right for them to work, and when conditions are not right, they fall down with a sickening thud.

A Percentage Proposition

The broad principles that are essential for a trader to follow and that apply year in and year out to all types and kinds of markets, are few in number and require little mental effort to comprehend and remember. In fact, it is only necessary to drill into the consciousness that successful trading is strictly a percentage proposition. Once that idea is firmly grasped, it almost automatically follows that none of the important principles will be violated.

It has been amply demonstrated by the records of successful traders that a 50% correct diagnosis of security movements is a sufficiently good batting average with which to make money despite the handicap of the commissions and taxes that must be paid. Assuming that an operator will be correct 5 out of 10 times, it is obviously quite possible that several unsuccessful commitments may be undertaken before a profitable one comes around. This immediately brings up a most important principle that the trader cannot afford to violate —over-trading.

It is difficult to give any fixed rule as to just what percentage of capital should be risked by the trader on any one operation. As a minimum in this regard, however, I consider that a trader should be able to sustain five successive losing trades without impairing his capital to such an extent that he would have to reduce his unit of trading. This amount of protection of capital would be reasonably conservative, for the experienced speculator, as it would take a rather unusual chain of circumstances to bring about a string of five failures if a reasonable amount of care and precaution is used.

Too large an interest in relation to capital in any one commitment impairs judgment and invites disaster. One of the most successful operators on the bear side in the 1929-1932 decline was wrong five times in the fall of 1929 before the great downward sweep in prices occurred. If he had over-traded at the beginning, those five unsuccessful attempts could have seriously impaired his capital, and not only that, unusually large losses would have had the effect of destroying confidence in his own judgment and might well have resulted in his entirely missing the large fortune that came to his hands through being short near the top.

For the novice an even more conservative method should be followed. No appreciable percentage of his capital should be risked until he has tried out his methods a sufficient length of time to be able to tell whether or not he is working along sound lines.

Profitable Trades Must Predominate

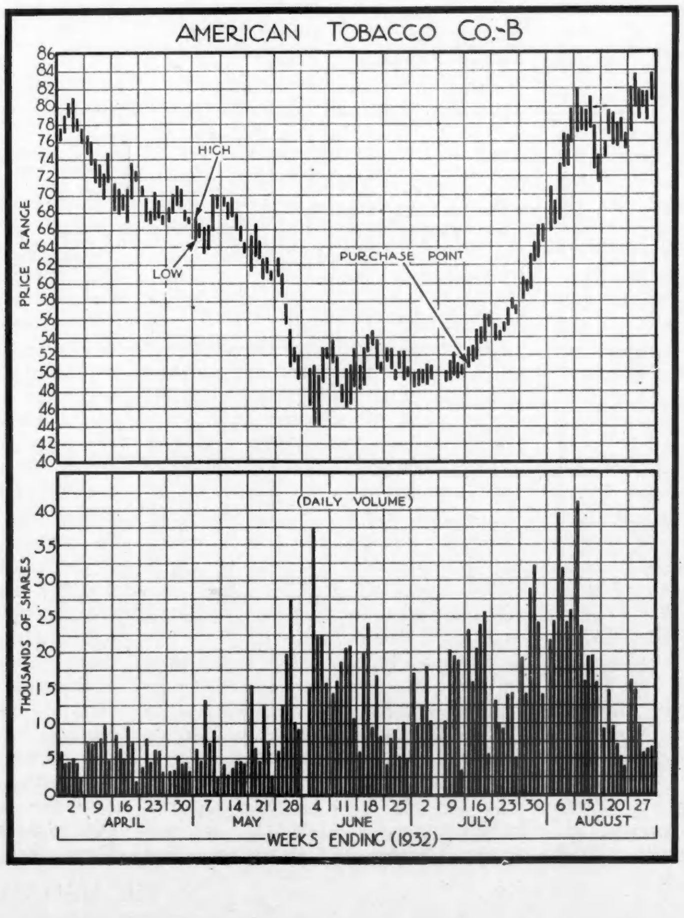
To be able to make money, although correct only 50% of the time, obviously means that the profitable trades must show larger profits than the losing trades show losses. This brings us to the next most important of the basic principles of successful trading which is, broadly speaking, to limit the losses and let the profits run. "You'll never go broke taking a profit" is an expression frequently heard in the financial districts, and it is such a dangerous untruth that there ought to be a law against repeating it. I would revise it to read "You'll surely go broke if you only take small profits." Sooner or later, losses will have to be accepted and substantial gains are necessary to offset them.

Before a commitment is entered into, the speculator

should gauge first, the extent of the risk and second the prospective gain. The ratio, in my opinion, should never be less than 2 to 1. In other words, if $150 is to be risked in the way of a loss not less than $300 should be regarded as a satisfactory profit. No purchase should be made unless the market action indicates that that much profit can be logically anticipated. By strictly following this rule, the trader will stay out of the market when it is in a very narrow trading range, and bide his time until broader movements develop. I have seen many thousands thrown away by operators attempting to make money in very narrow markets, simply for the reason that they wanted to be doing something although they knew they shouldn't.

A popular conception is that a trader is in stocks today, out tomorrow, and never holds anything for any length of time. Nothing can be further from the truth as regards the successful traders, the greater percentage of whom will be found to have made most of their money by holding positions a considerable length of time and accepting large profits. A position may be held an indefinite length of time provided that the movement of the security in question continues in a direction favorable to the holder. This is one of the fundamental rules, and is just good sense. Certainly, if long of a stock, and the market action continues favorable, with higher levels indicated, it is ridiculous to dispose of it for the sole reason that there is a profit of three or four points, yet many inexperienced speculators do just that thing.

Limit your losses. This is a fundamental principle that must be followed, there is no question about that whatever, but to apply this principle to your operations in the most scientific manner requires considerable study and experience. There is a lot of inexpert advice handed out on this subject and it generally takes the form of recommending a "stop-loss" order on all trades. While it is true that a "stop-loss" order will limit the loss on any single trade, this is small satisfaction, if because of improper use, they are continually being touched off. Then, when all the individual losses are added up, the limit-your-loss idea does not appear to be working at all. It will be found that veterans of the stock market are very chary of the use of the "stop-loss" order. This does not mean that they allow their commitments to go against them to any inordinate degree, but that they keep their minds open as to just when they will close out. In other words, they have had experience enough to know that they will act promptly when it is necessary to act. For the beginner, it is true that this method may be too dangerous, for he may fail to act when action is essential. In the latter case, "stop-loss" orders had best be used until such time as sufficient market judgment has been developed to eliminate the necessity for their constant employment. It is of prime importance, of course, that stop-loss orders be placed in such a way that the risk of being caught is not too great.



As an illustration of a trade entered into with the idea of making a quick turn and that would have involved the correct principles of successful speculation, the action of American Water Works & Electric at the close of 1932 can be given. This stock declined from a high of 19 early in December to a low of 15¼ in the last week of that month. After having been relatively inactive for some time, during the last week 5,000 shares were traded in between 15¼ and 16, a considerable percentage of which undoubtedly represented selling to establish losses under the income tax law. It was quite logical to expect a rebound when this special pressure lifted. On December 30 or 31, a purchase at 15½ with a mental stop-loss under 15 was a justifiable commitment as the action of the stock for several days had shown 15 to be a strong resistance point, and the prospects appeared favorable for a 3 or 4 point rally at the turn of the year, such as occurred. Of course, this rally might not have taken place, but with the averages showing fairly satisfactory action the chances favored it and it would have been sound trading judgment to have risked a possible $150 loss with a reasonable expectation of making a $300 profit.

When the objective of a trade is to take advantage of a substantial upward move with resultant large profits, if it materializes, then the trader is justified in assuming the risk of a larger loss than would be the case in endeavoring to make a moderate trading profit. In other words, if 15 or 20 points profit is the aim, it is not violating sound principles to risk a loss of as much as 5 points. The accompanying chart showing the fluctuations of American Tobacco "B" from April to October, 1932, furnishes a good illustration of this type of operation. It will be noted that the downward move started in the first week of April and culminated in the first week of June, in which week there was a total turnover of 125,000 shares. This large volume, after a drastic decline, would immediately put the thought in a trader's mind that it might mark the climax of the downward move.

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What the Liggett Bankruptcy Means to Drug

Retail Outlet for Large Manufacturer Resorts to Receivership to Escape Handicap of High Rentals and Unprofitable Leases

By C. L. Harper

The Foundation of Drug, Inc., Earning Power Lies in Its Nationally Advertised Trade-Marked Products

Bayer's Aspirin	*Ingram's Shaving Cream*
Cascarets	*Phillips' Milk of Magnesia*
Castoria	*Vick's Vapo-Rub*
Diamond Dyes	*Life Savers*
Ipana Tooth Paste	*Sal Hepatica*
Danderine	*Vitalis*
California Syrup of Figs	*Mum*
Pine Bros. Glycerine Tablets	*Vegex*

WHEN the Louis K. Liggett Co., drug store chain subsidiary of United Drug Co., filed a petition in bankruptcy on March 31, 1933, Drug, Inc., stock was sold in heavy volume and reached a low price for the year of 29. Bankruptcy of the well known Liggett chain on its face appeared a very disturbing piece of news and undoubtedly many holders of Drug, Inc., stock decided to part with their investment. There was a ready market for all who wished to sell, and the stock is now many points higher than it was when the bankruptcy news was announced.

This is another illustration of the importance of stockholders familiarizing themselves with affairs of the company in which they are part owners. The downward trend in business that resulted in bankruptcy for the store chain had been going on for two years and its effects had been very fully reflected in the price of Drug, Inc., stock. The dividend had been reduced from $4 to $3 accompanied by a price decline of nearly 30 points from the 1932 high. Announcement of the petition of bankruptcy by the Liggett chain should not have been regarded as an event tending to depress the price to still lower levels. There were fundamental as well as technical reasons why the stock should have been bought, not sold, on this news as can be discerned by a brief examination of Drug, Inc., corporate structure and financial statements.

Drug, Inc., a holding company, was organized in 1928 and acquired the entire capital stock of Sterling Products, Inc., and United Drug Co. Acquisitions subsequent to organization included among others Life Savers, Inc., Bristol Myers Co., Three-in-One Oil Co., Household Products, Inc., Vick Chemical, etc.

United Drug Co. owns the entire stock of Louis K. Liggett Co., B & R Drug Stores, Inc., May Drug Stores and a controlling interest in Boots Pure Drug Co., England. It sells products of its own manufacture, as well as goods purchased from other concerns, at both wholesale and retail. All drugs and medicinal lines of its own manufacture are put up under the brand names of Puretest and Rexall, which are sold exclusively through the Liggett stores, stores operated by other subsidiaries and more than 11,000 Rexall units (operated by agents).

Sterling Products, Inc., which controls the nationally advertised trade-marked articles sold throughout the United States and in many foreign countries, has been the money maker and United Drug the loser during the past year. In 1931 United Drug contributed roughly $2,100,000 to consolidated earnings of Drug, Inc. But in 1932, principally due to the loss sustained by the Louis K. Liggett Co. there was a deficit of approximately $2,500,000, or a net change of $4,600,000 in the year. On Drug, Inc., stock this difference was equal to $1.31 a share, which compares with a decline in the consolidated earnings of the company of $1.72. It can be seen, therefore, that the falling off in United Drug's earnings was responsible for more than 75% of the drop in earnings in 1932 to $3.84 per share from the $5.56 a share earned in 1931.

If the deficit shown by United Drug in 1932 could be eliminated this would mean that earnings of Drug, Inc., would be increased about 70 cents a share. Prospects of eliminating this deficit have been materially improved by placing of the Louis K. Liggett Co. in bankruptcy. Store rentals of the latter had been running about $7,000,000 annually. To try to avoid bankruptcy landlords had voluntarily formed a committee to secure total rent reductions of $1,400,000 and this figure had almost been reached. With the trend of business still downward, however, the management obviously felt that this was not enough and bankruptcy was resorted to. This means that all leases out of step with current economic conditions will be cancelled or renewed on satisfactory terms. Whether the Liggett company will be successfully reorganized or another company will be formed to take its place in the drug chain store business it is too early to determine but there is no reason whatever to doubt that adequate outlets for Drug, Inc., products will be main-

tained or developed in one way or another, and there are still, it must be remembered, approximately 11,000 drug store agencies handling Rexall products.

Another important factor responsible for the $2,500,000 deficit of United Drug last year was amortization and depreciation charges on leaseholds and fixed assets. This is to be largely eliminated by reducing the value placed on the capital stock of Drug, Inc., from $85,468,000 to $35,014,000, and the utilization of a major part of the surplus so created to write down the value at which leaseholds and fixed assets are carried. Leaseholds and improvements thereon will be entirely charged off. After this is done it will no longer be necessary for the company to make heavy deductions from earnings for amortization and depreciation of these assets.

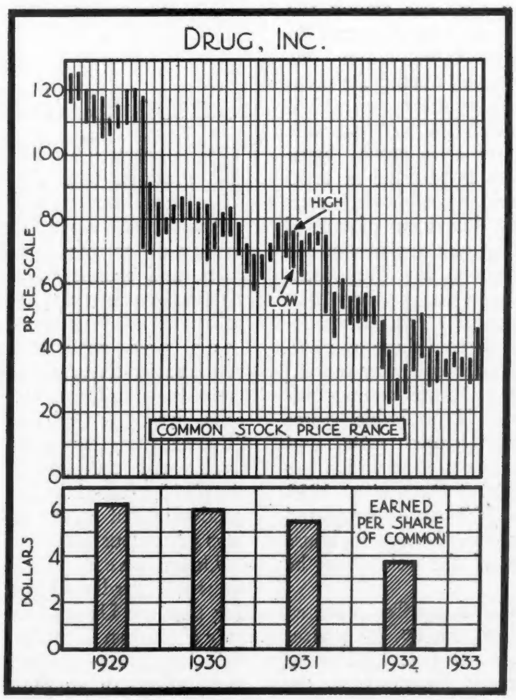
While the fact that real estate leases of the chain store organization were made with a subsidiary that could conveniently go into bankruptcy and get rid of the obligations has, it is true, been distinctly unfavorable to some of the landlords, it is a fortunate situation from the viewpoint of the stockholders of Drug, Inc. The side-stepping of an annual rental charge of $7,000,000 with a loss in assets not amounting to much more than the value of the store fixtures is certainly nothing to get bearish about. Possibly some of the retail outlets will be lost but they can replaced. Recently, for example, there have been negotiations involving consolidation with the Walgreen chain of drug stores, although apparently no decision has yet been reached.

While United Drug found an unprofitable venture on its hands in the Louis K. Liggett Co., the purchase several years ago of control of the Boots Pure Drug Co. turned out to be a highly successful deal. In January United Drug arranged for the sale of its controlling interest in this company to a group of English interests for approximately $26,000,000, which would have yielded a profit to the company of about $14,000,000 over the original purchase price. However, because of the effect such a large transaction might have on English exchange, the British Treasury did not permit the sale to go through. A minority interest was then disposed of, although just how much stock was involved has not been disclosed. The recent advance in the pound sterling in relation to the dollar, naturally tends to enhance the value of the investment in this English drug chain. It is quite possible that in view of what has taken place in Exchange the British Treasury will withdraw objections to the original deal and open the way for its consummation.

Relief from the burdensome Liggett leases and taking into consideration the valuable asset in Boots Pure Drug Co., warrants the opinion that United Drug can again become a profitable unit of Drug, Inc., or at least no longer a burden.

Foundation of Earning Power

The main foundation of Drug. Inc., earning power, however, lies in its nationally advertised trade-marked products, controlled by Sterling Products. Many of these products have been in the public limelight for so long a time that their use has become almost an unconscious habit. While it is true that competition has increased and price cutting is the order of the day, sales have held up remarkably well, purchasers refusing to turn to cheaper substitutes, because they were so thoroughly "sold" on the products. Moreover, company's list of important trade-marked articles is well diversified, as can be seen by the accompanying table, and the falling off in demand for one or two has been largely offset by increased sales of others. Strong resistance to further earnings decline by this branch of the company's business is indicated.



While the company has reduced operating expenses materially this has not been done in any way that would tend to injure sales. Advertising has been maintained on a liberal basis and it has been announced by the management that no cuts will be made in its important expenditures for national advertising during 1933. In the case of some products there will even be an increase in appropriations. Vick Chemical, for example, has recently introduced a new liquid antiseptic on which a nation-wide advertising program is now under way.

Consolidated balance sheet of Drug, Inc., as of December 31, 1932, discloses a sound financial condition with total current assets of $57,484,000 compared with current liabilities of $8,964,000, giving a working capital of $48,520,000. Included in current assets was $27,000,000 cash and marketable securities.

Capitalization consists of $40,000,000 5% debentures of United Drug due 1953, $5,168,000 real estate mortgages and other debts and 3,500,499 shares of stock of no par value. Since organization in 1928 dividends were paid at the annual rate of $4 per share until February of this year when the annual rate was reduced to $3 per share.

The manufacturing side of the company's business requires a relatively small capital investment and operating expenses can be quickly adjusted to meet changed conditions. Demand when it increases can be met quickly and efficiently. This is an important advantage over many corporations who are unable to reduce overhead beyond a certain point without threatening the demoralization of their organizations.

At present levels of around 38 the three-dollar dividend represents a yield of 8% and the stock of Drug, Inc., appears reasonably priced on the basis of present conditions. Given any improvement in the general industrial situation there is every reason to believe that the stock would enjoy substantial appreciation in market value. While earnings have been in a downward trend for some time a comparison of results with organizations in a similar line of business clearly indicates Drug, Inc., has given as good an account of itself as could be expected under the conditions prevailing.

Selected Stocks to Buy for Future Profit and Protection

By THE MAGAZINE OF WALL STREET Staff

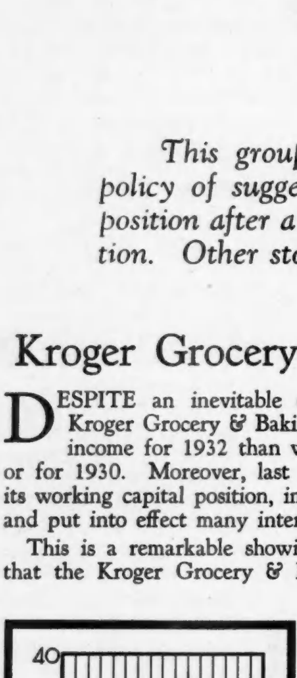
This group of stocks is presented in accordance with our announced policy of suggesting sound equities which appear in a sufficiently favorable position after a prolonged period of depression to warrant gradual accumulation. Other stocks will be discussed as their individual conditions justify.

EDITOR.

Kroger Grocery & Baking Co.

DESPITE an inevitable decline in dollar sales, the Kroger Grocery & Baking Co. reported a larger net income for 1932 than was reported either for 1931 or for 1930. Moreover, last year the company improved its working capital position, increased cash by about 65%, and put into effect many internal economies.

This is a remarkable showing. It will be remembered that the Kroger Grocery & Baking Co. was among the chain store systems to expand not wisely but too well during the prosperous times of 1928 and 1929. As a result there was much digestion to be done in 1930 and this coincided with the deepening of one of the worst depressions the country has ever seen. Earnings for 1930 showed a precipitous decline from those of 1929. But the company tackled its problems courageously. Unprofitable stores were closed right and left, a process which has continued up to the present time, for at the end of 1932 Kroger was operating a total of 4,737 stores compared with 4,884 a year earlier. The company also put its house in order internally and the success of the policy can be seen in the record of earnings.



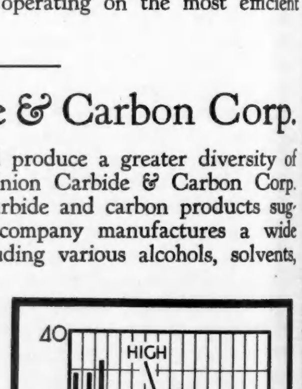
For 1932, the Kroger Grocery & Baking Co. reported earnings equivalent to $1.47 a share of common stock after all charges, compared with $1.46 in 1931 and $1.14 in 1930. The later showing lends much assurance to the safety of the $1 dividend which is being paid on the common stock and affords the reason why the yield is small—less than 4%, for the stock is selling around $27 a share.

Last year Kroger's cash increased to $9,160,672 from $5,524,652 and there was also an increase in the company's holdings of marketable securities which are carried at cost. Current assets at the end of 1932 amounted to $28,941,992, while current liabilities were $6,021,025, compared with current assets of $26,474,277 and current liabilities of $6,195,970 at the end of 1931.

In view of the fact that Kroger operated last year under the influence of a steady decline in prices and a lower public purchasing power which curtails the sale of the more expensive merchandise on which there is a larger profit, there is evidently every reason to believe that the company would do disproportionately better in the event of a moderate improvement in general conditions. Particularly is this so when consideration is given to the fact that the errors of the past now must have been largely corrected and that the company is probably operating on the most efficient basis of its history.

Union Carbide & Carbon Corp.

FEW companies indeed produce a greater diversity of products than the Union Carbide & Carbon Corp. In addition to the carbide and carbon products suggested by its name, the company manufactures a wide variety of chemicals, including various alcohols, solvents, gases, and chemical specialties; mechanical apparatus, including acetylene gas generators, lighting fixtures and welding equipment, dry cells, batteries and "Eveready" flashlights; finally the company is deeply interested in the production of metal alloys of various kinds.



Under these conditions it is hardly surprising that the Union Carbide & Carbon Corp. has failed to escape the adverse effects of anything as general as the current depression. Business, of course, in certain of the company's lines has gone steadily forward, especially is this so in regard to the new products and processes which the research department is constantly perfecting. For example, in the annual report for last year there is a statement to the effect that the volume of chemicals sold in established markets declined but that this decline was more than offset by the introduction of chemicals recently developed. On the whole, however, Union Carbide's business and profits have

shown the usual steady decline from the peak year 1929.

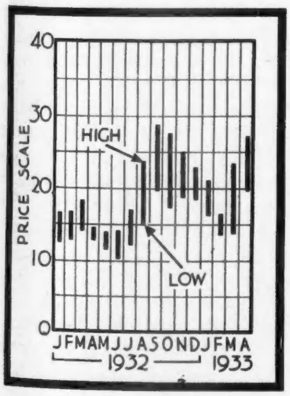
Last year the company's net income amounted to $8,781,426 after Federal taxes, depreciation, interest, subsidiary preferred dividends and other charges. This was equivalent to 97½ cents a share on 9,000,743 shares of no-par stock outstanding at the end of the year. In 1931, $2 a share was earned.

Because last year's earnings failed to cover the $1 dividend, this rate can hardly be considered wholly assured without some improvement in business. Nevertheless, Union Carbide is in a strong financial position and could easily make up indefinitely such a small difference between the dividend and earnings. On December 31, 1932, current assets, excluding the company's own stock held as an investment, amounted to $61,765,031, whereas current liabilities were only $6,596,984. Moreover, the current liabilities included a dividend of $2,700,000 payable January 2, 1933.

On an earnings basis the common stock of Union Carbide is admittedly not cheap at current prices of $30 a share. This is more than thirty times last year's earnings and the return on the capital invested is only 3.3%. Nevertheless, the company enjoys a commanding position in its field and is taking steps to preserve this position. With any improvement in general business it would, of course, benefit, particularly if there were any material betterment in the building and steel trades. In view of such ultimate prospects and knowing that the company could resist much further adversity the stock is one which has much to commend it for long term holding.

Mack Trucks, Inc.

AS A manufacturer of heavy-duty trucks, buses and other vehicles of a similar nature, Mack Trucks, Inc., has been severely affected by the adverse conditions of the past few years. For 1932, the company reported a net loss of $1,479,598, compared with a net loss of more than $3,000,000 in the previous year. Because the loss in the later period was smaller than that of 1931, it must not be thought that the company's business was much improved. On the contrary, sales during 1932 were but little more than half those of 1931. The apparent discrepancy is due to bookkeeping. In 1931, tools, etc., were charged off to $1 and naturally in 1932 no further charge on this item was necessary. Also, it is the company's policy to vary depreciation according to plant activity so that the amount charged off for this purpose in 1932 was nearly $900,000 less than in 1931.



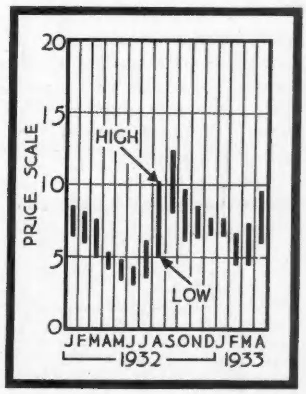
Last year $1,000,000 was transferred from surplus to "reserve for possible losses," for it was felt under present conditions that possible losses on receivables and inventories were not ascertainable. The management, however, states that with the return to normal business conditions it does not believe that such a reserve would be required and that in any event the amount is sufficient to care for any contingency.

It was fortunate that Mack Trucks, Inc., entered the depression in a more than ordinarily strong financial condition, for the company has experienced no embarrassment whatsoever due to lack of funds. Indeed, the balance sheet showing the company's position at the end of 1932 is an exceptionally clean exhibit. Current assets, including $9,467,786 in cash, amounted to $29,204,680, while current liabilities amounted to only $1,666,784. There is no funded debt except $541,000 in the 6% notes of Mack Trucks Real Estate, Inc., and no bank loans. Capitalization consists solely of 676,145 shares of common stock of no par value.

This stock is currently quoted around $26 a share and, while the dividend of $1 annually which is being paid on the issue cannot be considered wholly secure despite the strong financial position, it is a stock which would quickly reflect any improvement in general conditions. A pick-up in construction activity would be particularly beneficial and the efforts of the Government to aid the mortgage situation and its program of public works hold out considerable promise for the company. The return of beer may also be profitable through bringing about an increased demand for trucks.

American Radiator & Standard Sanitary Corp.

ONE cannot, of course, recommend the common stock of the American Radiator & Standard Sanitary Corp. on the basis of the company's current earnings, for these are less than nothing. The stock is one which must be bought as a speculation in the belief that the staggering decline in building activity has brought about a real shortage of housing, if reasonable living standards are to be maintained, and that this company will again become prosperous catering to the demand which has been built up during the years of depression.



That the American Radiator & Standard Sanitary Corp. indeed has suffered severely is clearly revealed in the company's income statement for the year ended December 31, last. In the period gross sales amounted to $61,295,560, compared with nearly $99,000,000 in the previous year, and operating profit was only $286,461 as against $4,635,807 in 1931. This, however, is not the whole story. Deducting adjustments for the price of inventory, idle plant expense, foreign exchange loss, interest, depreciation and depletion, taxes and other charges, a consolidated net loss of nearly $6,000,000 was shown for the year 1932. Furthermore, the company found it necessary to make extraordinary charges to surplus aggregating $18,567,845 and surplus which stood at nearly $58,000,000 at the end of 1931 amounted to only $31,600,000 at the end of 1932.

Yet, when one remembers that contracts for residential floor space awarded in 1932 were some 87% below those of the year 1928, the adverse showing becomes no more than what might have been expected under the condi-

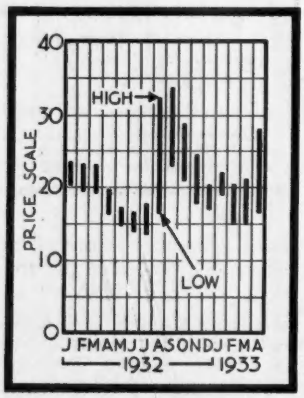
tions. Indeed, the company's showing is probably a little better than a previous analysis of the situation would have led one to believe was possible. Overhead expense last year was $15,000,000 less than in 1929. A number of branch offices, warehouses and showrooms have been closed. There has been much internal consolidation. Pensions and salaries have been cut drastically. Officers, who are strictly on a salary basis, are now receiving between 40% and 50% less than they previously obtained.

Yet, while these efforts failed to prevent a poor showing for last year, they augur well for the future, for the American Radiator & Standard Sanitary Corp. now is undoubtedly in a position to make money under conditions which previously would have resulted in a large loss. Further assurance that the company is in a position to take full advantage of an improvement in building is to be found in the official statement that development and research programs have been diligently maintained. Undoubtedly, the company has the right to expect much from air-conditioning and other new and improved apparatus when general conditions become more satisfactory than they are at the moment.

Despite all through which American Radiator & Standard Sanitary has passed, financial position is still strong and a further period of adversity could be weathered successfully. The company's stock is currently quoted around $9 a share. At such a price, clearly recognized as a speculation, it may be commended to those willing and able to assume the degree of risk involved.

National Steel Corp.

ALTHOUGH the National Steel Corp. is not perhaps as well known as some of its larger contemporaries, it has the distinction of being among the exceedingly small number of companies in its field to earn a profit last year. This attests to the soundness of the conception behind the merger of the Weirton Steel Co., Great Lakes Steel Corp. and others which took place in 1929 to form the present National Steel Corp. The latter is now a completely integrated unit. It has its own coal and ore reserves and operates its own transportation system. One of the company's main plants is located at Detroit. This is immensely beneficial for the advantage it gives National Steel in transportation costs over competitors for the automobile business.

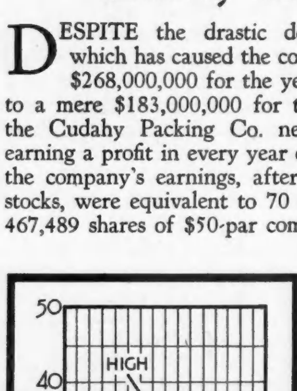


For the year ended December 31, 1932, the National Steel Corp. reported a net profit of $1,662,919 after Federal taxes, depreciation, depletion and interest This was equivalent to 77 cents a share on each of the 2,156,832 shares of $25-par capital stock outstanding. In 1931, $2.06 a common share was earned. In view of the exceedingly poor business conditions with which the company had to contend, the latest showing must be considered very satisfactory. Moreover, in 1932 National Steel managed to better its financial position. On December 31, last, cash amounted to $6,215,433, against $3,755,774 at the end of the previous year, while the net quick asset position at the end of the later period was nearly 9½ to 1, compared with 4.7 to 1 at the end of 1931.

At the present time, the common stock of National Steel is selling around $32 a share. While this is more than double the low of the current year and is a price at which the present dividend of 50 cents a share annually yields less than about 1.6%, the stock nevertheless is one which perhaps is less over-priced than would at first appear. After all, National Steel has a better record in adversity than any of the other larger listed steel companies. It is notably conservative. The large construction program has been entirely completed and now, from the point of view of plant modernity and low operating costs, the company is in an excellent position to make the best of any business that might be obtainable. Recognizing that National Steel's earnings were abnormally low last year, it would seem that the stock were one which would well reflect the improvement in business which we seem to be facing.

Cudahy Packing Co.

DESPITE the drastic decline in commodity prices which has caused the company's sales to decline from $268,000,000 for the year ended November 2, 1929, to a mere $183,000,000 for the year ended last October, the Cudahy Packing Co. nevertheless has succeeded in earning a profit in every year of the depression. Last year, the company's earnings, after dividends on the preferred stocks, were equivalent to 70 cents a share on each of the 467,489 shares of $50-par common stock outstanding. For the previous year $3.06 a share was shown.



While the earnings of 70 cents a share last year are far from sufficient to cover the dividend of $2.50 which is being paid on the stock, the latest results can hardly be said to be a fair measure of the company's normal earning power. Indeed, it is more than likely that the main part of the business, meat packing in all its forms, actually resulted in a loss, and that the only reason the company reported any earnings at all was because of the stable income derived from various cleaning materials, the best known of which is "Old Dutch Cleanser." When Cudahy no longer has to contend—and this seems a likely prospect for the future—with constantly falling prices, the packing section of the business undoubtedly will again become profitable.

The capitalization of the Cudahy Packing Co. is a reasonably simple one. It consists of $8,550,500 in 6% and 7% preferred stock of $100-par value and 467,489 shares of common stock. Funded debt totals $18,315,600, none of which matures prior to 1937. At the end of the last fiscal year, current assets amounted to $22,839,765, including cash of $4,698,519, while current liabilities totalled $3,584,515. The current assets do not include an investment account of $2,815,881 which represents, together with other assets, 36,279 shares of the company's own stock.

(Please turn to page 44)

Taking the Pulse of Business

—Government Policy Controlling Business Factor

—Levels of a Year Ago Regained

—Steel Activity Gains Markedly

—Carloadings and Electric Consumption Rise

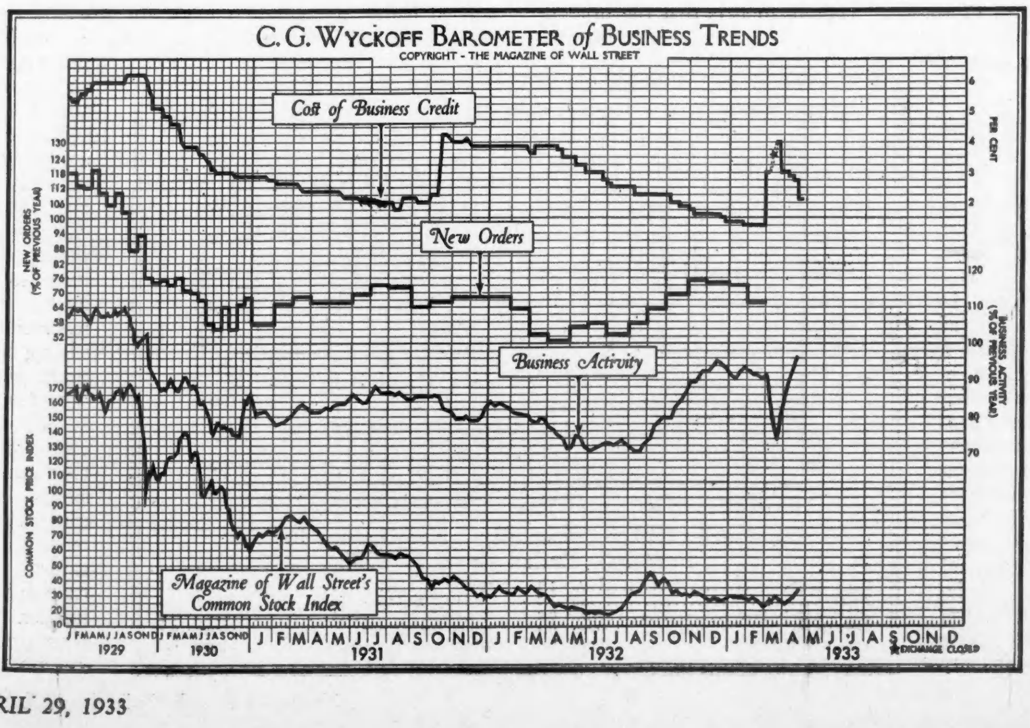
—Utility Outlook Clouded

WITHIN a brief period of five weeks after re-opening of the banks the volume of Business Activity has not only fully recovered from the paralysis occasioned by the moratorium but has risen almost to last year's level. In some lines the gains have been quite striking when measured in terms of activity during the previous year. During the week ended April 8, for example, 40% more automobiles were assembled than during the corresponding week of 1932, whereas the third week in March had seen the output reduced by two-thirds. The steel ingot rate is now higher than last year's, though it was off 42% during the week ended March 18. Car loadings are only 8% under a year ago, compared with a 24% slump during the banking holidays. Electric power output is off barely 4%, against a decline of 10.5% early in March. Improvement should extend somewhat further during the next few weeks; but reports on New Orders for the current month must be awaited to shed light upon its permanence.

It is rather difficult to determine at the present time how much of the expanding activity may be motivated by expectations of inflation, and how much can be attributed to a healthy revival in consumer demand. Of course purchases of even bare necessities had to be curtailed during the moratorium, and there is a possibility that business might relapse somewhat, once these suspended needs have been satisfied and the benefits of inflation are found to have been exaggerated. Genuine recovery of a non-speculative, and hence permanent, character is necessarily impeded at the present time by the impounding of six billions of deposits in upwards of five thousand banks which are still closed or operating under restrictions. True, the Cost of Business Credit at New York has eased considerably of recent weeks; but this merely reflects an influx of idle funds from the interior, and so conveys a rather misleading picture of the amount of funds available to finance a boom in prices.

On the other hand, it is becoming increasingly evident that the Government is not going to permit recovery to be long delayed by any permanent shortage of currency. If the regiment of comparatively conservative, though admittedly experimental, plans to combat the depression do not soon bring tangible results, then the dangerous forces of inflation will be brought into action. Judging by the amount of improvement which has already taken place since the banks reopened, it would seem that the working of normal economic laws, supplemented by legislation already enacted and further contemplated by President Roosevelt, will bring us out of the depression without sowing the seeds of a subsequent collapse, if Congress can only restrain its impatience and refrain from tampering with the currency.

Outstanding among constructive measures already adopted is the legalization of beer, which has given a fresh impetus to many lines of business. If sums to be expended upon new construction, in connection with the production



and marketing of this product, be added to the amount paid for the beverage by consumers, we have an estimated total of at least a billion and a half dollars which the industry will set in circulation during the first year. Far from reducing the consumption of other products, money spent for beer and its adjuncts will create employment and so add to the country's spending power. In fact the effects of this and other favorable influences have already bettered the outlook for a number of leading industries.

The Trend of Major Industries

STEEL—While most steel companies are still operating in the red, a marked improvement in this industry has taken place during the past few weeks. Ingot output has risen to around 27% of nominal capacity, from the year's low of 14% touched during the week ended March 18. This is a new high for the current season and is higher than last year's rate at the corresponding date. The showing is especially gratifying in view of the almost complete cessation of Federal and State projects. Expansion of automobile production and a rush of orders traceable directly or indirectly to resumption of the beer industry, have been major stimulants; though scattering orders for pipe, from the railroads, and from miscellaneous sources have been contributing factors. The advance in scrap prices, which has been continuous since the first of the year, has recently been joined by pig iron and by galvanized sheets. Some of the lesser steel companies are now operating at close to 30% to 35%, at which point, thanks to drastic economies, it is possible to meet fixed charges without depleting cash.

METALS—Silver has advanced sharply under expectations that demand for the white metal for monetary purposes will be stimulated in the not too distant future by domestic legislation and international agreements. Copper has risen to 5⅜ cents under rumors that there might be a six-months' shut-down of all copper mines in the United States; but the plan has had to be abandoned through refusal of Phelps-Dodge to join in the movement. Tin continues to advance and is now about 50% higher than last year. Zinc has about recovered the ground lost during the last half of March. Thus it appears that the price of non-ferrous metals, silver excepted, have as yet been little affected by talk of inflation.

PETROLEUM—Temporary closings of the prolific Oklahoma City and East Texas oil fields brought a momentary drop in the production of crude, and a slight decrease in motor fuel stocks; but permanent correction of the chaotic conditions in this industry must await enactment and strict enforcement of remedial legislation, both Federal and State. One great difficulty at the present time is that the Texas Railroad Commission, which is charged with regulating nearly half of the country's crude output, is not in full accord with the best interests of the industry as a whole. The situation in that state seems to be badly befuddled by politics.

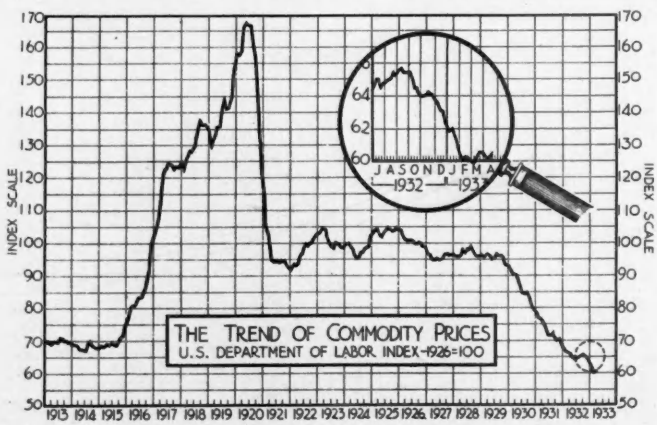
TIRES—With cotton and rubber now selling above last year's prices, and automobile production staging a belated seasonal expansion, the nearby outlook for leading tire makers is improving, for the first time in a number of years. If the rise in prices for raw materials continues during the second quarter, there will be no inventory losses, and earnings should compare quite favorably with the second quarter of 1932.

PUBLIC UTILITIES—Coming at a time when United States currency has just broken loose from its gold anchorage, the political move in New York to force a reduction in gas and electricity rates is scarcely auspicious for the public utility industry. If income is to be pared down and expenses are to go up, it seems that profits may be squeezed in both directions.

GROCERY CHAINS—An investigation among local and chain grocery stores discloses that the dollar volume of sales during the first week that beer became available to the general public increased from 17% to 31%. Although most of the rise was due to actual beer sales, a considerable portion was represented by an increased demand for foodstuffs, particularly delicatessen items. Making allowance for the novelty appeal of the beverage, grocery authorities estimate that a steady increase in business amounting to at least 10% will eventually result.

Conclusion

The sharp rise in our Business Activity index since the moratorium, coupled with persistent strength in securities and commodities, offers reasonable ground for believing that we have at last passed the bottom of the depression. Of particular importance is the circumstance that our raw material price index, shown on the opposite page, has advanced across the hundred mark for the first time since 1929. Of course the significance of this is that important raw materials, on an average, are now commanding higher prices than a year ago at this time, and consequently that an end has come to the heavy inventory losses which have played a major role in the slaughter of profits during the past three years. It is especially encouraging that the turn in commodity prices came before the embargo on gold exports; though expectations of inflation doubtless accelerated the rise.

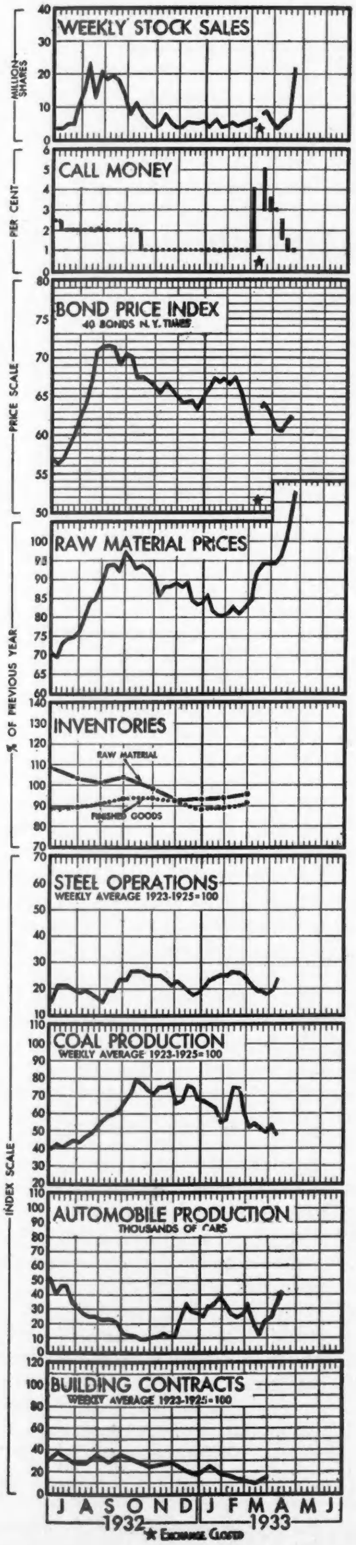


Changes in Major Commodity Price Groups for the Fortnight Ended April 1, 1933

Farm products	up	1.1	Metals	down	0.1
Foods	up	1.0	Building materials	no change	
Hides and leather	down	0.4	Chemicals	down	0.4
Textiles	down	0.1	House furnishings	down	0.1
Fuel and lighting	down	0.4	Miscellaneous	down	0.2

The Magazine of Wall Street's Indicators

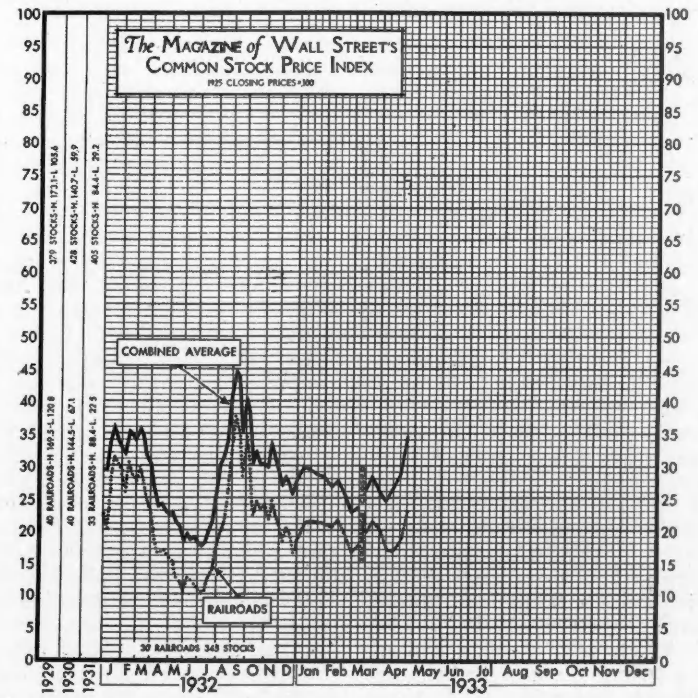
Business Indexes



Common Stock Price Index

1932 Indexes High	1932 Indexes Low	1932 Indexes Close	Number of Issues		1933 Indexes High	1933 Indexes Low	Apr. 8	Apr. 15	Apr. 22
45.0	17.5	27.4	280	COMBINED AVERAGE	34.6	22.7	26.4	28.4	34.6h
66.8	17.9	32.3	3	Agricultural Implements	50.8	26.8	44.3	48.9	50.8h
59.3	11.4	16.9	6	Amusements	18.7	7.3	9.3	9.4	11.2
31.3	10.7	17.5	14	Automobile Accessories	20.5	12.4	13.4	14.7	18.1
17.6	5.8	10.6	14	Automobiles	11.4	7.3	7.9	8.3	10.2
62.5	16.2	56.2	4	Aviation (1927 Cl.—100)	62.3	41.8	49.0	50.4	61.9
13.1	4.8	5.6	3	Baking (1926 Cl.—100)	8.8	5.1	6.7	6.9	8.8h
129.9	60.1	96.0	2	Biscuit	122.0	79.9	98.5	105.8	122.0h
83.8	29.6	45.5	5	Business Machines	65.9	37.7	51.2	56.6	65.9h
119.0	51.0	101.5	2	Cans	136.4	92.9	110.7	119.5	136.4h
113.3	53.6	96.3	8	Chemicals & Dyes	104.3	73.2	92.4	93.0	104.3h
44.3	13.1	18.9	2	Coal	20.2	12.0	12.3	12.9	16.1
24.8	9.9	14.2	14	Construction & Bldg. Mat...	18.0	11.2	15.0	15.7	18.0h
57.2	14.9	24.0	8	Copper	47.7	21.2	28.5	32.5	47.7h
57.8	28.3	32.6	2	Dairy Products	34.6	23.0	28.4	30.0	34.6h
16.3	4.5	7.9	7	Department Stores	12.0	6.6	8.4	10.0	12.0h
74.3	35.1	53.7	8	Drug & Toilet Articles	54.4	45.3	46.4	49.0	54.4h
63.9	28.7	42.2	4	Electric Apparatus	54.9	35.6	43.5	48.0	54.9h
58.7	23.7	33.2	2	Finance Companies	46.3	33.2	39.4	41.8	46.3h
56.1	28.3	39.5	5	Food Brands	49.5	32.6	41.4	42.0	49.5h
56.4	33.9	49.6	3	Food Stores	60.6	40.5	47.0	51.6	60.6h
41.8	11.7	17.0	2	Furniture & Floor Covering..	18.8	13.8	13.8	15.8	18.8h
527.8	357.9	514.0	2	Gold Mining	736.5	481.2	616.0	592.0	736.5H
21.1	9.6	12.4	4	Household Equipment	15.9	10.5	12.7	13.7	15.9h
31.5	9.5	22.0	7	Investment Trusts	26.5	14.5	16.1	18.2	23.1
27.4	7.7	20.0	2	Mail Orders	26.1	13.5	20.2	21.6	26.1h
55.8	19.3	30.1	7	Metal Mining & Smelting...	63.7	30.1	40.3	55.7	63.7h
42.4	21.6	33.2	24	Petroleum & Natural Gas...	43.5	29.3	34.9	36.8	43.5h
22.5	6.2	9.8	4	Phonos. & Radio (1927—100)	11.1	6.7	7.4	7.2	10.0
94.9	37.1	63.5	20	Public Utilities	68.2	40.8	41.7	45.8	55.5
37.8	12.0	17.7	8	Railroad Equipment	29.2	17.7	23.6	25.3	29.2h
37.8	10.4	18.1	29	Railroads	23.0	16.3	16.8	18.1	23.0h
44.4	14.9	27.0	2	Restaurants	29.3	19.9	19.9-l	21.7	23.3
89.9	58.0	60.8	2	Soft Drinks (1926 Cl.—100)..	71.8	57.8	71.8h	69.8	66.2
45.9	11.7	23.3	7	Steel & Iron	34.6	19.1	23.6	25.9	34.6h
12.4	3.8	7.3	3	Sugar	16.4	7.3	12.7	13.5	16.4h
121.6	53.9	112.1	2	Sulphur	125.9	79.3	96.8	106.5	125.9h
57.2	21.0	35.9	3	Telephone & Telegraph	41.5	28.1	29.7	31.4	41.5h
52.5	16.3	30.1	5	Textiles	37.9	22.5	29.6	30.7	37.9h
11.0	2.5	4.4	4	Tires & Rubber	6.7	3.0	4.2	4.8	6.7h
68.6	40.8	48.2	4	Tobacco	67.7	46.2	55.6	59.3	67.7h
57.0	17.9	22.7	3	Traction	34.9	22.3	32.1	33.1	34.0
50.9	23.3	34.3	2	Variety Stores	35.1	23.3	23.3-l	26.5	32.1

H—New high record since 1928. l—New low this year. h—New high this year.



(An unweighted index of weekly closing prices; compensated for stock dividends, splitups, and rights; and covering about 90% of the volume of transactions in all Common Stocks listed on the New York Stock Exchange.)

READERS' FORUM

The Readers' Forum is intended exclusively to serve in the discussion of problems of general investment interest. It welcomes free expression of opinion. The services of this department also are available for answering investment questions of general interests excluding inquiries regarding the position or prospects of individual securities.

Paying Dividends and Maintaining Surplus

Editor, READERS' FORUM:

I am somewhat confused in interpreting the various annual statements which I am currently receiving. Will you give me a simple explanation of profit and loss, surplus and net working capital? How is it that some companies pay out more in dividends than their earnings show and still maintain their profit and loss surplus without any apparent decline?—C. F. L., Buffalo, N. Y.

Surplus is the difference between the value of what a company owns and what it owes. Ordinarily there are two kinds of surplus: Profit and loss surplus, and capital surplus. Profit and loss surplus, if properly shown on the books, should be the difference between what the company has earned since organization and dividends paid to stockholders. Capital surplus usually arises from a sale of assets, at a profit, from paying off indebtedness for less than what it has been carried on the books, from writing up assets, and from writing down liabilities. From our definition of surplus, you can see that it is invested in company assets. Part may be in cash and part in property.

Net working capital is the difference between liquid assets and liabilities payable within a year. Liquid, or "current" assets consist chiefly of cash and inventories, though accounts receivable may also be a large component item. Current liabilities are made up largely of notes and accounts payable.

Strictly speaking, it is not possible for a company to pay dividends in excess of earnings without diminishing profit and loss surplus; though some companies camouflage their profit and loss surplus with an admixture of capital surplus, and so seemingly perform the impossible. It is quite possible, however, for a company to pay dividends in excess of earnings and still show a legitimate rise in working capital; because depreciation is an expense which does not involve a cash outlay. In other words, dividends paid out of depreciation reserves would not deplete working capital. Working capital can be strengthened, moreover, by shifting securities from the investment account to the current asset account. There are several tricks like this which will bear watching.

More Wages and Less Profit

Editor, READERS' FORUM:

I read with much interest and edification Charles Benedict's article, "As I See It."

May I express an opinion? You state, "A broader distribution of wealth" is due. How can you expect it? You in your argument acknowledge that appeals to the head and heart of business has proven futile as regards shorter hours. Why expect a different result when profits are concerned? No, in a world of individualism or every man for himself within the scope of the law and sometimes without it, law itself is the only redress. The unscrupulous determine the course of all unless all are tied down by the same check. What law shall we have? May I suggest the following:—A surtax of 100% on all profits over a certain percentage of the wages paid (exclusive of large salaries i.e., salaries which are beyond the possibility of proportional consumption.) Such a law would not destroy competition. Competition would then develop into control of market by superior quality of goods. The tendency would be to a larger wage with a higher standard of living and increased consumption. I believe with a smaller percentage of profit, the gross profit would be larger due to increased standards of living an aim to be desired and fostered but it can only be arrived at by legal control.

I am naturally in favor of machines and efficiency being a machine designed by profession (at present out of work) but the wage earner must be properly recompensed to be able to buy and consume the increased production. The ultimate aim would be every man with a home, an automobile, a radio, etc. After being properly paid he should be "propagandered" and educated to consume, meanwhile production should be speeded up.

I further believe that all new production should be financed by the profits of present production and here no doubt you will take issue with me for I don't believe in credit. Credit is a tax on the future. A credit to advance production means excess production in the course of time as credit and interest is pyramided. Then comes a depression to liquidate the excess. A credit to advance consumption (installment payments) leads to a final surfeit of credit with a lowered standard of living and decreased consumption as a great part of the income is going out in interest and then a depression is on. Every so often a depression has to kill off the excess debts and interest. Increase in wealth should be limited to increase in the means of production and this based on a natural increase in consumption. Banking has only one legitimate right for existence that is to bridge over the gap between the consumer and producer by discounting commercial paper.

It is hard to image a world without credit and interest but we are like people with green glasses who claim the world is green. I am often reminded these days of the ancients who considered the world as the center of the universe. In order to account for the movements of the other heavenly bodies they had to invent cycles and epicycles without number. The difficulty arose from the fact they started with the wrong premise. The state of the world today with the various cycles and epicycles of explanation of the how and why seems to point to the possibility that our original premises are wrong. When one gets lost one starts on a new route. He does not go back a few paces and follow the one that led him astray.—LOUIS J. SCHROEDER, Watertown, Mass.

PERSONAL SERVICE SECTION

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer, by mail or telegram, inquiries on any listed securities in which you may be interested, or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber, use coupon elsewhere in this issue and send check at same time you transmit your first inquiry.

Special rates upon request for those requiring additional service.

JOHNS-MANVILLE CORP.

What is your opinion as to the early outlook for Johns-Manville Corp? Showing a loss for the past year and with the poor outlook for building, and lack of buying from the railroad and automotive industries, I can't see why this stock sells so far above its 1933 low. Is there a real basis for it? Would you advise me to continue holding 100 shares bought slightly above present levels?—H. F. S., Daytona Beach, Fla.

Operations of Johns-Manville Corp. last year were severely affected by the industrial lethargy in general, and the apathy of building activity in particular. For the first time since annual statements have been published, Johns-Manville reported a loss from operations; last year's deficit amounted to $2,680,873, in contrast with net profits of $583,792 registered in 1931. 1932 sales amounted to $20,409,206 or a decline of 39% below those of the preceding year. However, despite the unfavorable earnings report, a highly liquid financial condition has been maintained. As of December 31, last, cash, U. S. Treasury notes and Canadian Government bonds amounted to $4,636,584 against total current liabilities of $1,914,730. The ratio of total current assets to total current liabilities amounted to 5.7 to 1 at the close of last year against 5.4 to 1 a year earlier. Although the strong cash position of the company justified further dividend payments on the preferred stock, directors of the company deemed it advisable to omit distributions in order to conserve cash resources of the company in the face of restricted outlook during early ensuing months. Obviously, this development precludes the early resumption of payments on the common stock. Nevertheless, the management has effected substantial operating economies, with the result that the company is so situated as to take full advantage of more favorable business conditions as they materialize. The common stock of Johns-Manville Corp. is not outstandingly attractive from the medium term standpoint, but we maintain confidence in the ultimate recovery of the company and counsel maintenance of present holdings.

NATIONAL BISCUIT CO.

Do you advise the purchase of National Biscuit at this time? I have some purchased at higher levels and I would like to average if you think it warranted. This stock has done exceptionally well marketwise and its earnings appear very good. I feel that there should be a real profit to be made but I do not want to make a mistake and will, therefore, await your recommendation.—F. R. K., Detroit, Mich.

In comparison with the general run of reports for last year, the 1932 statement of National Biscuit Co. certainly must be regarded as satisfactory. Net income for the 12 months ended December 31, last, amounted to $17,104,124, equal after dividends on the 7% preferred stock to $2.44 a share on the common. This compares with net of $19,739,491 or $2.86 a common share in 1931. Profits of 42 cents a share were reported for the initial quarter of 1933, against 60 cents a share in the like 1932 period. The reduced income was attributed to the falling off of sales of fancy crackers and other luxury items, on which the profit margins are substantial, as well as increased competition, resulting in reduced prices for its general line products. Obviously, in the absence of complete dividend coverage, the question immediately arises as to future distributions on the common stock. In this connection, the balance sheet position of the company is reassuring. Cash, U. S. Government obligations and municipal bonds, as of December 31, 1932, amounted to $30,531,802 while marketable securities were carried at a cost of $1,629,562, making the aggregate $32,161,364 against total current liabilities of only $8,114,665. The current ratio stood at 5.4 to 1, and net working capital amounted to $35,794,279, less than $74,000 below that of a year earlier. National Biscuit Co. has broadened its scope of operations during more recent years, and has built up a highly efficient distributing organization. It is therefore reasonable to assume that any relief from current stringency of business will be reflected in satisfactory profits

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New York Stock Exchange

RAILS

	1931 High	1931 Low	1932 High	1932 Low	1933 High	1933 Low	Last Sale 4/19/33	Div'd $ Per Share
A								
Atchison	202¾	79¼	94	17⅞	47⅛	34⅝	43⅝	..
Atlantic Coast Line	120	25	44	9¾	26⅛	16½	22½	..
B								
Baltimore & Ohio	87⅞	14	21⅜	3¾	12⅝	8¼	10½	..
Bangor & Aroostook	66¾	18	35¾	9½	26¾	20	25	2
Brooklyn-Manhattan Transit	69⅝	31⅛	50¼	11⅛	31	21¾	29⅞	..
C								
Canadian Pacific	45⅜	10¾	20⅝	7¼	14⅝	7½	9½	..
Chesapeake & Ohio	46½	23⅜	31½	9⅜	30½	24⅝	29	2½
C. M. & St. Paul & Pacific	8⅞	1⅛	4½	¾	2⅜	1	1⅛	..
Chicago & Northwestern	45½	5	14½	2	6¼	1¼	3⅜	..
Chicago, Rock Is. & Pacific	65½	7⅞	16⅜	1½	5⅝	2	2½	..
D								
Delaware & Hudson	157¼	64	92½	32	58¼	37⅝	52½	..
Delaware, Lack. & Western	102	17¾	45⅞	8½	27⅜	17¼	22	..
G								
Great Northern Preferred	69¾	15⅝	25	5½	11⅜	4⅝	11¼	..
H								
Hudson & Manhattan	44½	26¼	30¾	8	15¾	11½	12⅜	2½
I								
Illinois Central	89	9⅛	24⅞	4¾	15½	8½	13⅞	..
Interborough Rapid Transit	34	4⅛	14⅝	2¼	7¼	4⅛	6	..
K								
Kansas City Southern	45	6⅞	15¼	2¼	11	6½	8¾	..
L								
Lehigh Valley	61	8	29¼	5	14⅞	8⅝	11½	..
Louisville & Nashville	111	20¼	38¼	7½	33	21¼	32¼	..
M								
Mo., Kansas & Texas	26¾	3⅞	13	1¼	8⅞	5¾	7⅞	..
Missouri Pacific	42¾	6⅝	11	1½	4⅜	1⅛	1⅜	..
N								
New York Central	132¼	24⅞	36⅝	8¾	21½	14	19½	..
N. Y., Chic. & St. Louis	88	2⅛	9¾	1½	4½	2⅛	2½	..
N. Y., N. H. & Hartford	94⅞	17	31⅝	6	17⅝	11⅛	14¾	..
N. Y., Ontario & Western	13⅞	5¼	15¾	3⅝	11⅞	7⅝	10	..
Norfolk & Western	217	105⅝	135	57	130	111½	126¼	8
Northern Pacific	60⅞	14½	25⅜	5½	17⅜	9⅝	14½	..
P								
Pennsylvania	64	16¼	23⅜	6½	19½	13¾	18	.50
Pittsburgh & W. Va.	86	11	21½	6	10	6½	6½	..
R								
Reading	97½	30	52¼	9½	32⅜	23½	28	1
S								
St. Louis-San Fran.	62¾	3	6⅝	⅝	1½	⅞	⅞	..
Southern Pacific	109½	26½	37⅝	6½	19⅞	11⅛	15¾	..
Southern Railway	65⅞	6⅜	18½	2½	8¾	4⅛	7	..
U								
Union Pacific	205⅛	70⅛	94½	27⅞	80⅞	61¼	68⅜	6
W								
Western Maryland	19⅝	5	11⅜	1½	7⅜	4	6¼	..
Western Pacific	14⅞	1⅜	4¾	½	2	1¼	1¼	..

INDUSTRIALS and MISCELLANEOUS

	1931 High	1931 Low	1932 High	1932 Low	1933 High	1933 Low	Last Sale 4/19/33	Div'd $ Per Share
A								
Adams Express	23½	3⅛	9½	1⅜	5¾	3	5⅝	..
Air Reduction, Inc.	109¾	47⅝	63½	30⅞	64½	47½	60½	3
Alaska Juneau	20⅛	7	16⅝	7¾	15⅝	11⅛	15¼	.60
Allegheny Corp.	12¾	1⅛	3⅝	⅜	1⅝	⅞	1	..
Allied Chemical & Dye	182¾	64	88¼	42½	89⅞	70¾	89¼	6
Allis Chalmers Mfg.	42¾	10½	15⅜	4	10⅞	6	10⅞	..
Amer. Brake Shoe & Fdy	38	13½	17⅞	6½	15¾	9½	15¾	.60
American Can	129¾	58⅛	73⅞	29⅝	70½	49½	70	4
Amer. Car & Fdy.	38¾	4⅛	17	3⅛	11¼	6⅛	11¼	..
Amer. Com'l Alcohol	14½	5	27	11	22⅝	[illegible]	18	..
American Ice	31⅝	10⅛	21⅝	3⅜	6½	3¾	6	..
Amer. International Corp	26	5	12	2½	8⅝	4¼	8	..
Amer. Mchy. & Fdry	43¾	16	22¼	7½	13¾	8¾	13¾	.80
Amer. Power & Light	64⅞	11⅝	17¼	3	9¼	4	5½	..
Amer. Radiator & S. S.	21½	5	12¼	3⅛	8½	4⅝	8½	..
Amer. Rolling Mill	37⅝	7⅜	18½	3	11¾	5¾	11⅝	..
Amer. Smelting & Refining	58½	7⅛	27¼	5⅛	27¼	10¾	26⅞	..
Amer. Steel Foundries	31¼	5	15⅛	3	9⅛	4⅝	9⅛	..
Amer. Sugar Refining	60	34⅛	39¼	13	51⅞	21½	50⅞	2
Amer. Tel. & Tel.	201¾	112⅛	187⅜	70¼	109⅜	86½	90	9
Amer. Tobacco Com.	128¾	60⅛	86¾	40½	66½	49	66½	5
Amer. Tob. B	132¾	64	89¾	44	70¼	50¾	70¼	5
Amer. Water Works & Elec.	80¾	23⅛	34½	11	19½	10⅞	13½	1
Amer. Woolen	11⅞	2⅝	10	1⅜	6½	3½	6⅞	..
do Pfd.	40	15¼	39⅞	15½	34½	22⅝	34½	..
Anaconda Copper Mining	43¼	9¼	19⅜	3	10	5	10	..
Armour Ill. A	4½	⅝	2¾	⅝	2¾	1⅛	2¾	..
do B	2⅞	½	2	⅜	1½	¾	1½	..
Atlantic Refining	23⅝	8⅝	21⅞	8⅝	17⅝	12⅜	16⅜	1
Auburn Auto	295½	84½	151¾	28¾	56½	31¼	38½	2
Aviation Corp. Del.	6½	2	8⅞	1½	8⅝	5½	8⅜	..
B								
Baldwin Loco. Works	27⅞	4⅝	12	2	6¼	3⅛	4⅝	..
Barnsdall Corp. Cl. A	14½	4	7	3⅜	4½	3	4½	..
Beatrice Creamery	81	37	43½	10½	15¾	7	15⅝	..
Beech-Nut Packing	62	37½	45¾	29¼	54½	45	53	3
Bendix Aviation	25½	12⅝	18¾	4½	11½	6⅛	10⅜	..

Price Range of Active Stocks

INDUSTRIALS and MISCELLANEOUS (Continued)

	1931 High	1931 Low	1932 High	1932 Low	1933 High	1933 Low	Last Sale 4/19/33	Div'd $ Per Share
B								
Best & Co.	46¼	19¾	24⅞	5⅜	71½	9	17½	..
Bethlehem Steel Corp.	70⅛	17¼	29⅝	7¼	21	10⅛	20⅞	..
Bohn Aluminum	43	15½	22¼	4⅞	18¼	9½	17⅞	..
Borden Company	76½	35⅛	43⅛	20	26⅜	18	25¾	1.60
Borg Warner	30¾	9	14¼	3⅜	10⅛	5½	10⅛	..
Briggs Mfg.	22¾	7½	11⅜	2⅞	5⅛	2⅝	4⅛	..
Burroughs Adding Mach.	32¼	10	13¼	6¼	11	6⅛	11	.40
Byers & Co. (A. M.)	69¾	10⅞	24⅝	7	16	8½	15⅞	..
C								
California Packing	53	8	19	8	15	7⅜	14⅜	..
Canada Dry Ginger Ale	45	10⅜	15	6	11⅜	7½	10¾	1
Case, J. I.	131½	33¼	65¾	16⅜	53½	30½	53	..
Caterpillar Tractor	52½	10¼	15	4⅜	12¾	5½	12¼	..
Cerro de Pasco Copper	30½	9⅞	15½	3½	19⅞	5⅞	19⅞	..
Chesapeake Corp.	54⅛	13⅞	20¾	4⅞	20⅜	14⅞	18	2
Chrysler Corp.	25¾	11¾	21¾	5	17¼	7⅜	13⅝	..
Coca-Cola Co.	170	97½	120	68½	88	73½	80	7
Colgate-Palmolive-Peet	50½	24	31½	10¼	13	7	11⅜	..
Columbian Carbon	111⅝	32	41⅞	13½	35¾	23⅛	35½	2
Colum. Gas & Elec.	45⅝	11⅝	21	4¼	17¾	9	11⅝	.80
Commercial Credit	23¼	8	11	3⅞	6⅛	4	6	..
Comm. Inv. Trust	34	15⅛	27⅞	10⅞	27	18	26	2
Commercial Solvents	21½	6⅝	13¾	3½	15	9	15	.60
Commonwealth & Southern	12	3	5⅛	1⅝	2⅞	1⅜	1½	..
Congoleum-Nairn	14¾	6⅞	12¼	6½	9⅞	7⅜	9¾	.60
Consolidated Gas of N. Y.	109⅝	57¼	68¾	31½	63¼	40	43¾	4
Consol. Oil	15⅞	4⅛	9	4	6⅜	5	6⅜	..
Continental Baking Cl. A	30	4½	8	2⅞	5⅞	3	5⅞	..
Continental Can, Inc.	62¾	30¼	41	17⅝	50⅛	35¼	50⅛	2
Continental Insurance	51⅞	18⅛	25¼	6¾	17¼	10½	15⅝	1.20
Continental Oil	12	5	9⅜	3⅝	8¼	4⅞	8¼	..
Corn Products Refining	86⅝	36¼	55⅜	24¾	64½	45⅜	64⅜	3
Crown Cork & Seal	38¼	13¾	23⅞	7⅞	23½	14¼	21½	..
Cudahy Packing	48⅞	29	35½	20	31¾	20¾	31¾	2½
Curtiss Wright, Common	5⅞	1	3¼	⅞	2⅛	1½	1¾	..
D								
Diamond Match	23	10⅝	19⅛	12	19⅞	17½	19⅞	1
Dome Mines	13½	6⅝	12⅞	7½	16⅞	12	16¼	*1.30
Dominion Stores	24	11	18½	11¼	16	10½	16	1.20
Douglas Aircraft	21¼	7⅞	18⅝	5	13¾	10¼	12⅞	.75
Drug, Inc.	78¾	42¾	57	23	40½	29	40½	3
Du Pont de Nemours	107	50¾	59¾	22	44	32⅛	44	2
E								
Eastman Kodak Co.	185¾	77	87⅞	35¼	61⅜	46	57¾	3
Electric Auto Lite	74⅜	20	32¾	8½	20⅞	10	14½	..
Elec. Power & Light	60¾	9	16	2¾	7⅞	3⅛	4⅝	..
Elec. Storage Battery	66	23	33¼	12⅝	28½	21	28½	2
Endicott-Johnson Corp.	45¾	23½	37¼	16	35½	26	35½	3
F								
Firestone Tire & Rubber	21½	12⅞	18⅞	10½	14⅞	9⅛	14½	.40
First National Stores	63	41	54½	35	56	48	52⅝	2½
Fox Film Cl. A	38⅜	2½	5⅞	1	2½	¾	1½	..
Freeport Texas Co.	43¼	13¼	28⅝	10	26⅜	16⅛	24½	2
G								
General Amer. Transport	73⅛	28	35¾	9½	22	13⅜	22	1
General Asphalt	47	9⅝	15½	4¾	8⅝	4⅝	8½	..
General Baking	25⅝	9½	19⅝	10½	16¼	13	16¼	2
General G. & E. A.	8½	1¼	2¾	⅜	1½	⅝	1	..
General Electric	54¾	22⅞	26⅛	8½	16⅝	10½	16	.40
General Foods	56	28¼	40½	19⅝	28⅞	21	28⅞	1.60
General Mills	50	29⅛	48½	28	51	35½	50½	3
General Motors Corp.	48	21⅜	24⅝	7⅝	15⅞	10	15⅞	1
General Railway Signal	84⅛	21	28⅝	6⅛	22½	13¼	21⅛	1
General Refractories	57⅜	12	15⅜	1¾	6⅛	2½	3⅞	..
Gillette Safety Razor	38¾	9¼	24¼	10⅜	20¼	10⅜	11⅜	1
Gold Dust Corp.	42⅛	14½	20⅝	8¼	17⅜	12	17⅛	1.20
Goodrich Co. (B. F.)	20⅞	3⅜	12⅜	2¼	7⅜	3	7¾	..
Goodyear Tire & Rubber	52¾	13¾	29¾	5½	23¾	9¼	23⅛	..
Gulf States Steel	37½	4	21⅛	2½	18	6¾	17¾	..
H								
Hershey Chocolate	103¾	68	83	43½	57⅜	35⅛	50½	3
Houston Oil of Texas (New)	14	3	28¼	8¾	3¼	1⅞	3	..
Hudson Motor Car	26	7¾	11¾	2⅞	5½	3	4⅛	..
Hupp Motor Car	13⅛	3¾	5¾	1⅛	3⅛	1⅝	2¼	..
I								
Ingersoll-Rand	182	25¾	44⅞	14¾	36⅜	19¼	36	1½
Inter. Business Machines	179¾	92	117	52½	100	75¾	100	6
Inter. Cement	62½	16	18¾	3⅝	15¼	6⅛	14⅝	..
Inter. Harvester	60½	22⅝	34⅛	10⅜	27½	13⅝	27¼	.60
Inter. Nickel	20⅛	7	12½	3½	11¾	6¾	11⅜	..
International Shoe	54	37	44⅜	20¼	33	24⅜	33	2
Inter. Tel. & Tel.	38¾	7⅛	15¾	2⅝	8⅞	5⅛	8¾	..
J								
Johns-Manville	80¾	15⅝	33⅜	10	23⅜	12¼	22¼	..
K								
Kennecott Copper	31½	9⅝	19¼	4⅞	14½	7⅜	14⅜	..
Kresge (S. S.)	29⅝	15	19	6⅝	10¾	5½	8¼	..
Kroger Grocery & Baking	35⅛	12⅛	18⅞	10	25⅝	14½	25⅝	1
L								
Lambert Co.	87⅞	40⅛	56⅜	25	34½	22⅛	29⅞	4
Lehman Corp.	69¾	35	51⅞	30½	51	37½	50½	2.40
Liggett & Myers Tob. B	91¾	40	67¼	34⅛	72½	49¼	72¼	*5
Liquid Carbonic	55⅛	13⅛	22	9	18⅛	10¼	17	..
Loew's, Inc.	63½	23⅞	37¾	13¼	21½	8½	14⅜	1
Loose-Wiles Biscuit	54⅞	29⅞	36⅜	16½	29¼	19¼	29	2
Lorillard	21⅞	10	18⅜	9	16	10⅜	16	1.20
M								
Mack Truck, Inc.	43⅞	12	28¾	10	26	13½	25¾	1
Macy (R. H.)	106¼	50	60⅛	17	44½	24¼	43⅞	2

New York Stock Exchange Price Range of Active Stocks

INDUSTRIALS and MISCELLANEOUS (Continued)

	1931		1932		1933		Last Sale 4/19/33	Div'd $ Per Share
	High	Low	High	Low	High	Low		
M								
Marine Midland	24¼	9¼	14⅜	6½	11½	5¼	7⅜	.80
Mathieson Alkali	31½	12	20⅞	9	19	14	18⅞	1½
May Dept. Stores	39	15⅝	20	9½	18⅞	9¾	18⅞	1
McKeesport Tin Plate	103½	38½	62¼	28	67⅜	44⅛	67⅜	4
Mont. Ward & Co.	29¼	6⅝	16½	3½	17⅛	8⅝	17	..
N								
Nash Motor Co.	40⅞	15	19¾	8	15⅛	11⅛	13¼	..
National Biscuit	83¾	36⅜	46⅞	20¼	42	31½	42	2.80
National Cash Register A	39¾	7⅛	18¾	6¼	11½	5⅛	11	..
National Dairy Prod	50¾	20	31⅜	14⅜	18¼	10½	16⅜	1.20
National Power & Light	44¼	10¼	20⅜	6⅝	15¼	6⅞	9	1
National Steel	58⅛	18⅛	33⅞	13½	28½	15	28	.50
Nevada Consol. Copper	14¾	4¾	10¼	2½	7⅛	4	7⅛	..
North Amer. Aviation	11	2⅜	6⅝	1¼	7⅛	4	5⅜	..
North American Co.	90¼	26	43¼	13¾	31⅛	15¼	18⅜	§8%
O								
Ohio Oil	19½	5⅛	11	5	8⅛	4¾	8⅛	..
Otis Elevator	58½	16⅛	22½	9	14	10⅛	13	.60
Otis Steel	16⅜	3½	9¼	1¼	4⅜	½	3¼	.
Owens Ill. Glass	39¾	20	42¼	12	49½	31½	49	2
P								
Pacific Gas & Electric	54⅞	29⅝	37	16⅞	31¼	20	22½	2
Pacific Lighting	69½	35	47½	20¼	43⅜	25¼	28¾	3
Packard Motor Car	11⅞	3⅞	5¼	1½	2⅞	1¾	2⅛	..
Penney (J. C.)	44¾	26¾	34½	13	29⅜	19¼	29	1.20
Peoples Gas—Chic.	250	107	121	39	78	41⅜	43½	5
Phelps Dodge Corp.	25⅝	5⅞	11⅝	3⅞	9⅜	4½	9⅛	..
Phillips Petroleum	16⅝	4	8⅛	2	7½	4¾	7½	..
Procter & Gamble	71¼	36⅜	42¾	19⅞	32¼	19⅝	32¼	1½
Public Service of N. J.	96½	49⅛	60	28	55¼	33¼	36¾	2.80
Pullman, Inc.	58½	15¼	28	10½	28⅛	18	28	3
Pure Oil	11⅞	3¼	6½	2⅞	3⅞	2½	3¾	..
Purity Bakeries	55¼	10¾	15⅞	4⅜	12⅛	5⅞	12	1
R								
Radio Corp. of America	27½	5⅛	13½	2½	6	3	4¾	..
Radio-Keith-Orpheum	4	2¾	7¾	1½	3⅝	1	1½	..
Remington-Rand	19¾	1⅞	7½	1	4½	2½	4	..
Republic Steel	25⅜	4⅛	13⅞	1⅞	8⅞	4	8⅞	..
Reynolds (R. J.) Tob. Cl. B	54½	32½	40¼	26½	33¾	26½	33¾	3
Royal Dutch	42⅝	13	23¾	12⅛	21¾	17⅝	21	..
S								
Safeway Stores	69½	38⅝	59¼	30⅛	42⅝	28	40½	3
Sears, Roebuck & Co	63¼	30¼	37⅜	9⅞	22⅛	12½	21⅝	..
Seaboard Oil—Del.	20¾	5½	20⅜	6⅝	24½	15	24¼	*.50
Servel, Inc.	11¾	3½	5⅜	1⅛	2⅜	1½	2⅜	..
Shattuck (F. G.)	29½	8¼	12¾	5	10	5¾	7½	.24
Shell Union Oil	10¼	2½	8¾	2½	5⅝	4	5⅜	..
Simmons Co.	23¾	6⅞	13⅜	2¾	8¼	4⅜	7	..
Socony-Vacuum Corp.	21	8⅜	12¼	5¼	7⅞	6	7¾	.40
So. Cal. Edison	54½	28⅜	32¾	15¾	28	17½	19¼	2
Standard Brands	20½	10½	17⅞	8⅜	18⅛	13¾	17¾	1
Standard Gas & Elec. Co	88⅜	25⅛	34¼	7⅝	15¾	5⅛	8¼	..
Standard Oil of Calif	51¾	23⅛	31⅞	15⅛	26½	19½	26½	2
Standard Oil of N. J.	52½	26	37⅜	19⅞	31⅜	22¾	30⅞	1
Stewart-Warner Speedometer	21⅞	4¾	8½	1⅞	3¾	2½	3⅝	..
Stone & Webster	54½	9⅞	17⅜	4⅝	10⅝	5¾	6¾	..
Studebaker Corp.	26	9	13¾	2½	5¼	1½	2	..
T								
Texas Corp.	36¼	9⅞	18¼	9¼	15⅜	10¾	15⅜	1
Texas Gulf Sulphur	55¾	19½	26¾	12	25	15¼	22½	1
Texas Pac. Land Tr	17⅝	4¼	8½	2½	5⅜	3½	5¼	..
Tide Water Assoc. Oil	9	2⅛	5⅝	2	4	3⅛	4	..
Timken Roller Bearing	59	16½	23	7¾	18¾	13¾	18¾	1
Transamerica Corp.	18	2	7⅛	2⅛	6	2⅝	5	..
Tri-Continental Corp.	11¾	2	5½	1½	4½	2¾	4¼	..
U								
Underwood-Elliott-Fisher	75¾	13⅜	24⅜	7⅜	18¼	9¼	18	.50
Union Carbide & Carbon	72	27⅛	36⅜	15½	28¾	19¾	28	1
Union Oil of Cal.	26⅝	11	15⅜	8	11⅝	8½	11	1
United Aircraft & Trans	38⅞	9⅞	34⅜	6½	28¾	16½	23½	..
United Carbon	28¾	6⅛	18	6⅜	15	10¼	14⅜	..
United Corp.	31¼	7½	14	3½	10⅛	4⅞	5⅞	.40
United Corp. Pfd.	52⅛	26⅛	39⅜	20	37⅜	24⅞	28¾	3
United Fruit	67¾	17½	32⅜	10¼	42⅜	23¼	41½	2
United Gas Imp	37½	15⅜	22	9¼	20¾	14	15¾	1.20
U. S. Industrial Alcohol	77⅜	20⅜	36¼	13¾	27¼	13½	26⅞	..
U. S. Pipe & Fdy	37⅛	10	18⅛	7¼	10⅞	6⅛	10⅞	.50
U. S. Realty	36¾	5½	11¾	2	5⅝	2½	5	..
U. S. Rubber	20⅜	3½	10¼	1¼	6⅞	2⅞	6⅝	..
U. S. Smelting, Ref. & Mining	25¾	12⅜	22¾	10	41½	13½	41	1
U. S. Steel Corp	152⅜	36	52⅝	21¼	38¼	23⅜	38	..
U. S. Steel Pfd.	150	94	113	51½	71⅞	53	71¾	2
Util. Power & Lt. A	31	7⅞	10⅜	1½	4⅛	1⅞	2⅛	..
V								
Vanadium Corp.	76⅜	11	23¾	5¼	15⅝	7⅝	15½	..
W								
Warner Brothers Pictures	20⅜	2⅛	4⅛	½	2¼	1	1⅜	..
Western Union Tel.	150¾	38½	50	12⅜	31	17¼	23	..
Westinghouse Air Brake	36⅛	11	18⅛	9¼	21	11⅜	20¼	1
Westinghouse Elec. & Mfg	107¾	22½	43½	15⅝	31¾	19⅜	31	..
Woolworth Co. (F. W.)	72¾	35	45⅝	22	37⅛	25⅛	32	2.40
Worthington Pump & Mach	106⅞	15¼	24	5	16¼	8	16¼	..
Wrigley (W. Jr.)	80⅜	46	57	25¼	40	34½	39	3

† Bid Price. § Payable in stock. * Including extras.

Answers to Inquiries

(Continued from page 35)

expansion for the company, which in turn, because of operating economies effected, should accrue to the common stock. At this writing, the current dividend rate appears reasonably secure. The common stock of National Biscuit Co. merits a semi-investment rating, and offers interesting potentialities for profits.

GENERAL MILLS, INC.

Yielding over 6% it seems to me that General Mills is in a very promising position to show investment profit. I would like to purchase some of this stock if you think it advisable. I am wondering, however, if a continued rise in wheat prices is likely to seriously affect earnings. I will be guided by your judgment.—E. M. T., Portland, Ore.

Operations of General Mills, Inc., have been outstanding during the depression years in that it is one of the few concerns that have been able to register earnings improvement. "Hedging" operations have protected it against price fluctuations of wheat, while sales of flour, feeds and other products manufactured by the company have held up relatively well. Earnings for the fiscal year ended May 31, 1932, amounted to $3,891,200, equivalent after dividend requirements on the 6% preferred stock, to $3.93 a share on the common stock. This compares with $3.71 a common share in the preceding fiscal year. Since no interim reports are published, it is difficult to forecast earnings during the current fiscal year. In view of the stable nature of the business, however, together with this concern's capable management and aggressive advertising policies, no drastic slump in earnings is indicated. General Mills is believed to have maintained its strong financial position reported at the end of the last fiscal year, when current assets amounted to $29,433,301, including $6,144,833 in cash and $3,502,437 in U. S. Government securities, while current liabilities stood at $4,377,219. In recent years the company has expanded its specialty package foods which now include "Wheaties," rolled oats, pancake and cake flour, "Bisquick," and "Embo." The development of these lines tends to further diversify its business and should result in a more marked earnings growth than other concerns whose income is solely dependent upon milling operations. The ability of General Mills to maintain profit margins under conditions of the past few years indicates even better results during more normal times. We regard the common stock as an attractive industrial equity on the basis of yield and favorable long term prospects. Hence, we feel that commitments in the shares are fully justified at the present time.

COLLINS & AIKMAN CORP.

I would appreciate your frank opinion as to the outlook for Collins & Aikman. I have 110 shares purchased in 1931. In view of the loss in earnings shown for the past year, my broker advises me to sell. Are these losses more the result of inventory write-offs than actual operating losses? Do you think 1933 will show greater losses? Do you advise to sell or to hold on a little longer?—R. T. L., Dayton, Ohio.

Since the Collins & Aikman Corp., is largely dependent for its earnings upon sales to the automotive industry, sharply curtailed activity in that industry resulted in a sizable deficit last year. The company reported for the year ended February 25, 1933, a net loss, including $300,000 which was charged to reserves for contingent inventory losses, of $522,001. This loss, however, did not include $92,760 which was the excess of par value over the cost of preferred stock purchased for retirement during the year. In the preceding fiscal year the company reported net income, including $265,773 excess of par value over cost of preferred stock purchased, of $1,365,089, equivalent after preferred dividends to $1.49 a share on the common stock. Although the company is the leading manufacturer of automobile upholstery, it has diversified its line to a certain extent through the manufacture of carpets, furniture upholstery and special quality fabrics for the garment trade. A strong financial position has been maintained, total current assets as of February 25, 1933, amounted to $6,117,314, while total current liabilities stood at $472,203. Thus, in spite of the unpromising near term earnings outlook, the company would appear to be well able to hold its leading trade position. Since you have maintained your position in these shares through what appears to be the worst of the situation, we see little cause to disturb your holdings at current deflated levels, feeling that patience on the part of present shareholders will be amply rewarded over a period of time.

ENDICOTT-JOHNSON CORP.

I have 100 shares of Endicott-Johnson common at 53. Because of lower 1932 earnings I will appreciate your advising me if you consider this stock worth holding. Do you consider the dividend secure? Should I switch to something else with better prospects for earnings and price enhancement?—D. T. L., Boston, Mass.

After having experienced a small deficit in the first half of its last fiscal year, the Endicott-Johnson Corp., as a result of operating economies and high unit sales, was able to report a profit of $1,188,241 for the full year ended November 30, last, equivalent after preferred dividends, to $1.80 a share on the common stock. For the eleven months ended November 28, 1931, net income of $2,580,566, or $4.84 a common share, was reported. Production of shoes during the past year exceeded that of any other year in the company's history, while unit sales reached a level only exceeded in one previous year. Reflecting the trend toward lower prices, however, dollar sales during the last fiscal year declined $4,604,200 from those of the previous year. Endicott-Johnson's operations are completely integrated, with the result that rather large inventories are carried which, to date, have resulted in heavy losses. Since inventories at the 1932 year-end were said to have been written down to the lowest level in its history, losses from this source should be at least minimized if not entirely avoided, during the current year. A strong financial position has been maintained which, together with its capable management, augurs well for future earnings at such a time as consumer purchasing power improves. Although the current $3 annual dividend is not entirely secure, the strong current position would permit its continuance for a considerable further period, even though not fully earned. In our opinion, the common stock ranks among the more attractive equities in the shoe industry for long term holding and we suggest the maintenance of your present position.

NATIONAL CASH REGISTER CO.

What is your opinion of the business outlook for National Cash Register and the prospects for its stock? Because of its 4-million loss last year, I am undetermined whether to hold 150 shares of this stock I have had for several years, or to sell and put proceeds into a company with better early prospects.—T. K. M., Syracuse, N. Y.

The annual report of National Cash Register Co. for 1932 revealed a loss from operations of $3,399,265. After allowing for liquidation of inventories and collection expenses, totalling in the aggregate $1,100,000, net loss for the year amounted to $4,499,265. This compares with profits of $824,339 or 69 cents a share on the class A stock in the preceding year. Although the decline of 43% in sales last year to $16,475,548 was largely responsible for the deficit, the drastic retrenchment program carried on by the management during the year also cut sharp inroads into profits. As a matter of fact, total

write-offs charged against income last year amounted to $3,636,083 indicating an actual operating profit of $236,819 for the year. The foregoing write-offs provide for the revaluation of repossessed registers, and current inventories, as well as charges for registers scrapped. Despite the decline in net working capital of some $7,000,000 to $16,832,952, the current fiscal position of the company remains entirely satisfactory. As a matter of fact, agents' balances and miscellaneous accounts receivables (doubtful) were written down $1,749,333 during the year, which amount, was charged directly to reserves for contingencies. Total current assets as of December 31, 1932, including cash and marketable securities of $4,813,634 amounted to $18,887,545 against total current liabilities of $2,054,593. As the situation now stands, National Cash Register has placed itself in an excellent position to take full advantage of a pickup in general business, the benefits from which will accrue directly to its stockholders. Recent reports indicate that a moderate increase in business was registered during the first two months of the current year, although the "bank holiday" checked this progress. Nevertheless, prevailing quotations for the common stock appear well deflated in relation to existing conditions and medium term prospects, and while admittedly speculative in character, we suggest the maintenance of your present position.

CHESAPEAKE & OHIO RY. CO.

Can you tell me why Chesapeake & Ohio Railway stock is selling around its high for the past year and a half, regardless of the fact that revenues declined over 17% and most other rails are down? Is this a good time for me to sell a small block of stock purchased at slightly higher levels? Kindly give me full information and your advice in this matter by return mail.—A. B. T., Chicago, Ill.

The reason for the apparent price stability of Chesapeake & Ohio common stock may be found in the annual report of the company for 1932. Admittedly, gross revenues during the year declined slightly more than 17% from those of 1931, but a reduction of about 25% in operating expenses during the year enabled the company to restrict the decline in net income to less than 12%, a showing considerably better than the general run of reports for Class-I roads. It is to be noted, furthermore, that despite operating economies effected during last year, the equipment, roadway, track and structures were maintained in good condition. Reduced to a per share basis on the common stock, profits last year amounted to $3.05 against $3.47 in 1931. Certainly, on a price-earnings basis, Chesapeake & Ohio common cannot be regarded as unreasonably-valued at current prices. Moreover, as a result of slight gains in traffic volume, as well as strict control of operating expenses, an increase in net earnings approximating $600,000 was revealed for the first two months of the current year as compared with the corresponding interval of last year. Financial condition of the road is strong, total current assets as of February 28, 1932, amounted to $22,201,175 against total current liabilities of $17,017,715 while funded debt due within the next six months amounted to only $4,273,000. It is yet too early to anticipate with any degree of accuracy full 1933 earnings prospects, but we do not look for any revision in dividend payments on the common stock during early ensuing months, at least. We regard Chesapeake & Ohio common one of the better media for representation in the railroad industry, and see little cause for disturbing your holdings.

OHIO OIL CO.

I have some Ohio Oil shares purchased somewhat higher than present levels. What are its prospects? Would you advise selling on a price bulge and switching to some other company with brighter prospects for recouping my losses? I would appreciate a prompt reply as I do not want to run the risk of waiting too long.—L. M. F., Scranton, Pa.

Because of higher crude prices during the greater part of 1932, the Ohio Oil Co., experienced a marked improvement in earnings during that year compared with those reported at the close of 1931. The company reported for the year ended December 31, 1932, net income of $7,242,981, equivalent after preferred dividends, to 58 cents a share on the common stock. These results compare with a deficit of $5,182,261 in the previous year. As a result of drastic proration measures in the various fields in which the company operates, together with recurring price weakness for crude oil, earnings are unlikely to register any marked improvement over the near term. A strong financial position has been maintained, however, total current assets as of December 31, 1932, amounted to $30,965,063, while total current liabilities stood at $3,022,289. Thus, this concern is in a position to withstand a prolonged period of restricted earnings. Proven oil reserves of Ohio Oil rank among the largest possessed by any company in this country and the present conservation of these reserves should eventually prove profitable to stockholders. While we see nothing at this writing to indicate any near term marked improvement in crude oil prices, the tendency toward greater cooperation on the part of producers should eventually yield satisfactory results. Many operating economies have been effected, which, given more favorable conditions, should tend to increase earnings. We feel that eventual recovery of the industry should result in materially higher prices for your shares, and on this basis, recommend retention of your present holdings.

AIR REDUCTION CO.

Do you think that this would be a good time to buy a little more of Air Reduction Co.? I realize that earnings are down considerably from last year, but as I study the outlook for this company it seems to me that it is in a most favorable position. Kindly let me have your opinion as to the outlook and as to whether I could buy this for near and long term profits.—R. F. T., Minneapolis, Minn.

Air Reduction derives the bulk of its earnings from the manufacture and sale of oxy-acetylene gases and equipment, which line is dependent to a large degree upon railroad and manufacturing activities. Since these industries have been particularly hard hit during the current depression, earnings of Air Reduction have naturally declined. Nevertheless, repair work and the development of new uses have helped to offset the decline in sales to its principal customers. The company reported for the year ended December 31, 1932, a net profit of $2,293,760, equivalent to $2.72 a share on the capital stock, compared with $3,815,409 or $4.54 a share in 1931. A strong financial position was shown as of the year-end, when total current assets amounted to $11,045,314, of which $5,426,217 was in cash, while total current liabilities were $1,251,431. The company has no funded debt nor preferred stock outstanding, so that all earnings accrue directly to the common stock. Thus, the continuance of the current annual dividend of $3 is indicated over the near term, at least. While little improvement in demand from the railroads and the automotive industry is in sight at this writing. the Federal Government reconstruction program may mean some earnings betterment. In any event, Air Reduction may be depended upon to participate fully in any improvement which may come about in economic conditions and, in our opinion, purchases of the shares are fully warranted at the present time.

S. H. KRESS & CO.

I have 150 shares of S. H. Kress & Co. purchased as an investment over the past three years at an average cost of about 52. I thought if anything held up this stock would. But with earnings down and sales dropping off, I am somewhat concerned re-

garding my position. What is the outlook for the balance of the year? Do you advise me to sell my stock and switch to something else?—H. C. O., Boise, Idaho.

The annual report of S. H. Kress Co. for 1932 revealed consolidated net income of $3,428,148, equal, after allowing for dividends on the 6% special preferred stock, to $2.76 a share on the no par common stock. This compares with $5,016,481 or $4.14 a common share in the previous year. The balance sheet dated December 31, last, revealed a strong financial condition, total current assets amounting to $16,742,498 of which $6,459,721 consisted of cash, and $101,337 U. S. Government securities, at cost, against total current liabilities of only $1,523,700. Cash as of December 31, last, represented an increase of more than $3,700,000 over that of a year earlier. S. H. Kress & Co. has had a long record of successful operations, and has consistently but conservatively extended its chain store system. At the close of last year, the company operated 230 5-to-25-cent stores, located, for the most part, in the southwestern part of the country. The rather pronounced falling off of dollar sales during March may be attributed to the sharply curtailed business activity resulting from the "bank holiday." Although profits of the company doubtless will remain restricted during early ensuing months, when consideration is given to the past record of the company, its capable management, and strong financial condition, confidence in its future prospects on the part of present shareholders is justified. The current dividend rate of $2 a share annually is reasonably secure, and the shares, in our opinion, are suitable for further retention in the average business man's portfolio.

Intimate Letters of a Washington Journalist and His New York Broker

(*Continued from page 15*)

$250,000 more, we expect to be all washed up." In other words, they would close up their business. However, if I know my onions, the period immediately ahead of us, while it may not be one of enormous volume, nevertheless will bring with it sufficient activity to eliminate the red ink. That is all we brokers have been asking for.

Well, old top, keep me posted on what is going on in your neck of the woods, and, for goodness' sake, try to put some consistency into Speaker Rainey. He has developed into the greatest little "mind changer" you ever saw—one day he says: "No silver legislation this session" and a few days later he says exactly the opposite. A few weeks ago, he expected a 30-billion bond issue. Then he came out a few days later and said that he was mistaken—that it would be only a 2-billion issue. Garner at least kept his mouth shut. Oh well, no one takes Rainey seriously anyway. Look at his funny necktie.

That's all for this time. The speakeasies are still doing a good business and I wish the brokers were.

Yours,
DON.

P. S. What has become of Baruch? I hear he is back in our market. Can't you find out something your way?

Studies in Stock Speculation

(*Continued from page 25*)

The stock, being an investment favorite with an excellent record of earnings throughout the depression, was well worth considering as a purchase provided market action was sufficiently favorable to justify the risk. The large turnover in the early part of June might only have meant short covering together with the buying of a certain amount of long stock for support purposes which would be thrown out on the first rally, after which the downward move would be resumed. However, if a considerable percentage of this volume represented buying by strong interests familiar with the affairs of the company who considered the stock intrinsically cheap, then a large part of the loss registered by the stock since the first of April might be recovered.

In the second and third weeks of June, the stock market as a whole enjoyed a technical rally, and the rally in American Tobacco "B" did not have any particular significance as it could have been regarded as being merely in sympathy with the general market. In the fourth week of June and the first week of July, however, the general market turned very weak, both the industrial and railroad averages making new record lows. American Tobacco "B" however, particularly in the first week of July, refused to follow the market down, holding steady at a level well above the low points registered in the early part of June. This action was very significant, tending strongly to indicate that at least a considerable amount of the stock purchased on those big volume days in June had not been disposed of but was being held, for if it had been disposed of there would have been every reason to believe that American Tobacco "B" would have followed the general market down and made new lows also.

Having in mind the fundamental principle of not attempting to buck the major trend of the market with an individual issue, the trader would watch the averages to see if any commitment on the long side was advisable. He is now anxious to buy American Tobacco "B" if there are not too many danger signals out as regards the market as a whole. On July 8, both railroad and industrial averages made a new low, yet on July 9, sales of stocks on the New York Stock Exchange were the lowest for any day of the year. Liquidation for the time being, at least, had certainly dried up, and chances now appeared to favor at least a technical rally. In other words, the averages no longer said "don't buy" and the impressive market action of American Tobacco "B" appeared worth following.

Accordingly, on Monday, July 11, the stock is purchased and obtained somewhere between 50 and 51. It will have been noted that previous to the precipitous drop of this stock in the last half of May, it had had a trading range over a period of a month between the 65 and 70 levels, and this level would be considered the first important resistance point on the upside. If a substantial rally was coming, therefore, it was quite likely that American Tobacco could reach the lower zone of this trading range or about the 65 level which would mean a profit on the commitment of 15 points. In other words, a 15-point rally could be tried for. On the other hand, should the stock fail to rally and then break the resistance points on the downside of July and June such action would indicate that either the diagnosis of the situation had been incorrect or that some new unfavorable factor had come into the picture, and the stock would be closed out with approximately a 5-point loss.

When American Tobacco "B" reached the resistance zone of around 65, its action would be closely watched and if it hesitated at that point, for two or three days, it would be closed out. As there was no hesitation at this point, the operator would have maintained his position and finally closed out somewhere in the distribution range between 74 and 84, obtaining a considerably larger profit than he had been shooting for. In making such a play, the experienced operator would have no illusions that it would positively be successful; his reasoning would be simply that the chances were distinctly in his favor and that he was playing for profits at least three times greater than the money he intended to risk on the deal.

One of the important principles in-

volved in the above description of a trade in American Tobacco "B" is that of taking a broad view of the security market. No stock should be purchased, no matter how attractive it may look technically and statistically, if the stock market as a whole appears headed for lower levels. While it is true that in declining markets certain issues buck the trend, the ratio is probably not much better than 1 out of 100, and the percentage is decidedly against an operator being able to light on one of the few exceptions. Frequently, there is great temptation to attempt to do this, but it must be firmly resisted. Time and again I have run into people who were frankly bearish on the market, yet were still long of stocks. Questioning them on their lack of logic, the usual answer was "I am only holding good issues and I believe that these particular stocks are low enough now." This is ridiculous reasoning for a speculator, yet an almost unbelievable number indulge in it. If you are bearish on the market, do not be long of anything. If you are bullish on the market, do not be short of anything. This is a fundamental rule that must not be violated.

How Will the Investor Fare Under Railroad Co-ordination?

(*Continued from page* 18)

week, a surplus of $20,000,000 over combined fixed charges was shown, with the aggregate of that obligation then existing. With it brought down to where it should be through a comprehensive reduction in the funded debt of weak roads, the surplus on a volume of 600,000 cars would be substantially increased.

The railroads of the United States, with the exception of a half dozen or so, are in a sad plight. This is due to only a few major reasons—unjustifiable geographical location in the case of a few lines; unduly large capitalization at the start and all along the way for a considerable number; lack of efficient and honest management, for some, and, lastly, the severe economic depression for three and a half years. Those half dozen roads have to contend only with the last named problem.

The solution of all the problems for all the other roads seems relatively simple. It is roughly this—Prompt authorization by the I. C. C. to abandon unprofitable mileage; allow the strong roads to go their own way and not be required longer to help the weak lines. Require the companies with top-heavy funded debt to readjust it comprehensively, and without delay. En-

actment by Congress of legislation for repeal of Recapture and Valuation clauses of the Transportation Act and for reasonable regulation of the directly competing mediums of transportation. With these steps taken and with a normal volume of traffic if the steam railroads of the United States could not survive and even prosper, there would no longer be any good reason for continuing them in their present form. The best authorities believe they could give a good account of themselves. This solution is far more comprehensive than a mere co-ordinating of facilities.

The leading railway executives do not expect that the railway legislation, as finally enacted, will provide for more than co-ordination of facilities and services as already outlined, repeal of the Recapture clause and control of holding companies. As a co-ordinating scheme, carried out to any extent at all, will involve laying off men—it is estimated that 80 per cent of the saving will come through labor—private advices from Washington have stated that organized labor has been assured that the cuts in its forces will not be serious. The opposition of labor is understood to be one of the main reasons for keeping down the scope of the emergency legislation.

There is no probability, according to the latest and best information from Washington, of the plan of F. H. Prince of Boston, calling for the placing of the railroads of the United States into seven or eight geographical groups, to be taken over by one gigantic holding company, being undertaken by the Government in the near future, if at all. The information is to the same effect with respect to general consolidation in any form. Here again organized labor would set up a most formidable obstacle. It has been estimated that adoption of anything like the Prince Plan would have put at least 250,000 more railroad employees out of work—probably a larger number.

In this consideration of the many big problems involved in this article—all vital to railroad security holders—there remain only the dread ogre, government ownership, and the effect of adoption of the provisions of the recently enacted Bankruptcy Act, as they apply directly to the railroads. It should be only necessary to hark back for a moment to the disastrous effects upon the physical properties and demoralizing influences upon the morale of the employees, of government operation of the railroads during the World War, to cause all thinking railroad investors to stand up in arms against government ownership. If added reason for doing so is needed, a glance at the deficit of $96,532,459 of the government-owned Canadian National Railways for 1932 compared with a deficit of only $2,487,253 for the privately-owned Canadian Pacific, should be sufficient. Then take a look at the high physical standing to which the railroads of the United States were restored through private ownership and operation, following return by the Government, and the big earnings piled up until the slump started late in 1929. If Mr. Eastman is appointed Federal Co-ordinator it is to be hoped that he will not use the co-ordinating plan as a step toward Government ownership.

The status of railroads with a top-heavy funded debt under the Bankruptcy Act, is still uncertain. Only, three, St. Louis-San Francisco, Missouri Pacific and Chicago & Eastern Illinois have signified their intention of availing themselves of its provision so far. Readjustment managers of the "Frisco" believe they can "switch" from the receivership that began last fall. Missouri Pacific has taken the preliminary steps, but the property is still being operated by former officials, under direction of the court, but no readjustment plan has been announced.

In general, the status of owners of railroad stocks and bonds of roads that "go in" under the Act will depend greatly upon the men selected to bring about the readjustment, and the scope and fairness of the plan put through. With the right kind of men and the right kind of plan, the position of those security holders should be materially improved. President Roosevelt is said to be disappointed because weak roads generally have not "gone in" under the Act. It is a question yet whether eventually it will prove a material improvement for the roads and their security holders over the old fashioned receivership.

Cudahy Packing Co.

(*Continued from page* 30)

In view of the fact that the most important single factor in the decline of Cudahy's earnings over the past few years must necessarily be much less strong in the future—that is, meat prices cannot forever continue on a downward trend—and taking in consideration that the Administration is bending all its efforts towards higher prices, the common stock of this company has clearly defined attractions for the purchaser of equities at the present time. The issue is not cheap on current earnings, of course, and a buyer at these levels should recognize that at least some measure of a favorable future has already been discounted.

The Security Buyer Looks At the Department Store

(*Continued from page* 23)

some executive is making one to two hundred times as much as she is, while she goes in shoddy clothes and skimps on her diet.

Another important consideration in the longer range view of department stores from the investment viewpoint is the competition of other forms of merchandising. The chain store, with its concentration and flexibility, has cut into department stores sales on one side. The five and tens and twenty-fives on another. The specialty shops are staging a comeback. Many articles that once could be purchased reasonably only at department stores are now on sale in drug and cigar stores. Toys and books, as example, can now be purchased more conveniently, and sometimes at lower prices, in drug stores. The department store cannot compete with the fly-by-night shops which mushroom on sweatshop labor and low price. As a matter of fact, the price-cutting competition between department stores of the same class has nearly ruined many. And the element of personal service in a large store, so consistently advertised and boasted of, cannot ever be carried to the desired lengths. There are too many customers, and too much commotion, and the average sale is too small to warrant the time and cost necessary for real personal service. The department stores have built up the demand for personal service through advertising. To forego it now means loss of trade. Yet in many instances it is a costly accessory.

During the depression, in many cases unwisely, the department stores have given way to over-emplasizing price appeal. The Quality Goods campaign now being sponsored by the National Retail Dry Goods Association is proof of the public demand for quality as well as price. But it will take considerable time to overcome the price consciousness fostered in the public mind. It is my opinion that many department stores have lost customers during the past three years by misuse of advertising, lower than necessary inventories and selling price appeal merchandise where quality was desired. An average quality customer, desiring to purchase a particular article at a reasonable price, has too often found the article out of stock and been "sold," by high pressure methods, some similar article of poor quality. By the time the merchandise begins to wear, the

low price is forgotten, but the inferior quality and, particularly, the fact that the customer was "sold" the article, is not. Students of social trends tell me that during the next few years the average citizen is to have more time and leisure. This means for one thing that more time will be spent in shopping, goods will be examined closer, more service will be desired. The specialty shop, serving few customers, is admirably situated to take a substantial share of the department store's quality trade. I am not, however, referring to such stores as Tiffany, Abercrombie & Fitch, and Russek's which are more or less large specialty-quality stores in themselves. Nor do I believe that the outright price appeal department stores will be dangerously affected directly. The danger to the quality and mass sale department stores arises out of the fact that medium class store inventories overlap merchandise at both ends. Any widespread forced liquidation would undoubtedly result in temporary instability throughout the entire retail industry. Just what movements will be made to increase factory-to-consumer sales and how successful they will be, is largely guesswork. It is my guess that the manufacturer will always meet difficulty in the retail sales field. Yet it cannot be denied that in the realm of food products the experiment has been carried on with some success. It seems to me that the large mail order houses are perhaps a more imminent danger. They are able to out-shop most department stores, are setting up for branch distribution, and have made serious inroads into the mass sales department stores in some territories by the establishment of branches.

I do not mean the foregoing to be taken as darkly as it sounds, but I do suggest that some of these issues be taken into account by department store investors. Basically, the department store is sound and at present necessary. It is destined to meet increasing competition, but the idea of being able to buy most of one's wants at a low price under one roof and with one account has proven a sales advantage since the early days of caravans and fairs. My point is that during the next twenty years the retail industry is going to be stormy and subject to many fluctuations. The efficiently managed department stores should be able, by keeping abreast of times, to hold their lead. But a definite speculative element, not broadly present during the twenties, is creeping into department store investment. If I may offer a word of advice to security holders, I suggest a demand for more comprehensive and detailed reports, and perhaps a little more consideration on the part of investors to weigh the changing forces of a business that is built on change. In-

New York Curb Exchange

IMPORTANT ISSUES

Quotations as of Recent Date

Name and Dividend	1933 Price Range High	Low	Recent Price	Name and Dividend	1933 Price Range High	Low	Recent Price
Alum. Co. of Amer.	54¼	37¼	52½	General Aviation	5	2⅞	4¼
Alum. Co. of Amer. Pfd. (1½)	52¾	37	45	Goldman Sachs T.	3⅝	1⅞	2⅝
Aluminum, Ltd.	20¼	13¾	20	Great A. & P. Tea N.-V. (7).	155	128	151¼
Amer. Cyanamid, B	6⅞	3¼	6½	Gulf Oil of Pa.	33⅝	24	33⅝
Amer. & For. Pr. war.	5¾	2⅝	5¾	Hollinger Gold (.80)	7⅜	5¼	7⅛
Amer. Gas & Elec. (1)	33¼	17⅜	20⅜	Humble Oil (2)	52	40	52
Amer. Founders	1¼	⅝	¾	Inter. Petrol (1)	11½	8⅞	11¼
Amer. Superpower	5⅛	2⅛	3	Lake Shore Mines (2)	34⅛	25⅞	30½
Assoc. Gas Elec. "A"	2⅝	1	1⅛	Nat. Bellas Hess	1⅞	¾	1¾
Bunker Hill & S.	29	14½	29	Nat. Sugar N. J. (2)	35½	22¼	35
Carnation Co.	7½	5¼	7⅛	New Jersey Zinc (2)	40¼	26⅛	40¼
Cities Service	3½	2	2½	Niagara Hudson Pwr. (1)	16⅜	8⅛	10
Cities Service Pfd.	17½	10⅛	11¾	Penroad Corp.	1⅞	1⅛	1⅝
Colum. G. & E. Co. Pfd. (5).	96	68	76	St. Regis Paper	3⅝	1½	2
Consol. Gas Balt. (3.60)	65	43¼	44⅛	Salt Creek Prod. (1)	4⅛	3⅛	4¼
Commonwealth Edison (5)	82⅝	50	53	Singer Mfg. (6)	102	90	97¼
Cord Corp. (.10)	7⅛	4⅜	6⅞	Standard Oil of Ind. (1)	22⅛	17	20¾
Crown Cork Int'l A.	3½	2½	3⅛	Stutz Motor Car	17⅝	8⅞	12
Deere & Co.	15⅛	5¾	15⅛	Swift & Co.	14⅜	7	14
Elec. Bond & Share Pfd. (6)	43⅜	25	26⅞	Swift Int'l (2)	21⅛	12¼	21½
Elec. Bond & Share (6% stk.)	21⅞	10	14	United Founders	1½	¾	⅞
Elec. Pr. Assoc. (.40)	4¼	2½	3	United Gas Corp.	2¼	1⅛	1⅛
Ford Motor Can. A.	7	4⅞	6	United Lt. & Pow. A.	4⅜	2	2⅞
Ford Motor. Ltd.	3½	2⅝	3⅛				

vestors new to this field should also make a careful comparison of desired securities with the securities of other companies serving a similar clientele on the same credit basis, and particularly study policies of expansion and amortization. Personally, I am buying department store stocks at what I consider absurdly low prices. But I am buying for short time holding and speculation—not for long range investment.

How Far Can This Market Go?

(*Continued from page 8*)

Steel operations have expanded to the highest point in a year and there have been notable gains in railway car loadings, in output of electrical energy and in automobile production. It is altogether probable that the prospect of inflation will bring further immediate stimulation in most production and distributing lines, but this will necessarily bring with it some longer-term uncertainties as to the degree of inflation and the extent of the price rise. The visible advance in commodities thus far has been concentrated largely in the speculative markets, broad indexes of all commodities, such as that of the Department of Labor, showing only slight gain and remaining well under the low level of last year.

In the bond market inflationary tendencies have had the traditional diverse effects, resulting in sharply lower prices for the highest grade issues, including United States Government bonds, but in moderately advanced quotations for many speculative issues. The market's average decline in the last month has been in very small proportion to the excited advance in stocks. This is due in part to the fact that the market for high grade bonds is largely an institutional one. Banks and insurance companies are merely dealers in dollars and their actual solvency would not be threatened by inflation. Indeed, many institutions will continue to invest income in bonds.

For the average private investor, however, we believe that equity ownership is preferable to bonds under present conditions. We suggest that at least part of commitments in high-priced bonds be disposed of to avoid the risk of ultimate more serious decline, but that more speculative issues be retained in view of their present resistance.

What the Securities Act Means

(*Continued from page 13*)

have had but never has had. Heretofore information given out in regard to a security could not be taken at face value. Important facts that the investor should know have been concealed. Inequitable accounting methods were used to hide true earnings. So flagrant have been the abuses in this regard that the investor through necessity has had to place his reliance almost entirely on the house of issue. His belief in the integrity of the seller was his main prop. Of course the reputation of the distributor will always be a factor to be considered but it need no longer be the only factor. Under this act when a security is offered and the statement accompanying this offering is signed by persons of financial responsibility, the purchaser can feel quite confident in his mind that the statement is correct. There is a reason. We quote from Section 9 of the Act: "In case any such statement shall be false in any material respect any persons acquiring any securities to which such statement relates, either from the original issuer or from any other person, shall have the right to rescind the transaction and to obtain the return, either at law or in equity of any or all consideration given or paid for any such securities upon the surrender thereof, either from any vender knowing of such falsity or from the persons signing such statement jointly or severally."

While the Securities Act is not retroactive it will undoubtedly be a factor of importance in bringing greater

MARKET STATISTICS

	N. Y. Times 40 Bonds	Dow, Jones Avgs. 30 Indus.	Dow, Jones Avgs. 20 Rails	N. Y. Times 50 Stocks High	N. Y. Times 50 Stocks Low	Sales
Monday, April 10	60.96	62.11	26.46	56.79	53.75	1,759,954
Tuesday, April 11	61.25	61.15	26.17	56.37	54.85	1,434.500
Wednesday, April 12	61.25	60.26	25.80	55.05	53.87	748,260
Thursday, April 13	61,77	62.69	26.60	56.50	54.50	1,659.970
Friday, April 14			EXCHANGE	CLOSED		
Saturday, April 15	61.62	62.88	26.60	56.93	55.65	958,610
Monday, April 17	61.24	61.59	25.70	55.81	54.14	1,005.416
Tuesday, April 18	61.40	62.65	26.12	56.15	54.05	1,434.873
Wednesday, April 19	61.13	68.31	27.59	59.68	55.67	5,088,200
Thursday, April 20	61.08	72.27	28.75	63.97	60.35	7,127.650
Friday, April 21	61.81	69.78	29.51	64.03	60.33	5,214.750
Saturday, April 22	62.15	72.24	30.66	63.60	60.28	2,275,510

publicity to the affairs of corporations whose securities are held by the investing public. When any company finds it desirable to sell any of its securities to the public it must comply with all the regulations of this act. The New York Stock Exchange has made great progress recently in widening the scope of information in regard to companies whose securities are listed. With these two forces working for better accounting methods and frankness with the investor it will probably not be long before corporations who conceal vital information from stockholders will be the exception not the rule.

Banking Moratorium Marked Low Point of Depression

(Continued from page 11)

unabsorbable quantities. Even the vast banking shakedown now going on is not likely to again depress security prices, for the present co-ordinator system is founded on the idea of conserving assets; banks reopen more with new funds than by sacrifice of what liquid assets they have. Indeed, this is a bright spot in the financial situation, and one that removes a weight that hung over the market for years.

Railway Traffic Gains

The forecast of the Railway Regional Shippers Advisory Boards of railway traffic for the second quarter of the year gives support to the probability that the final business bottom has been reached in railway traffic. It estimates business for that quarter as only 0.3 per cent below last year's. Car-loadings continue to narrow the gap between last year and this, and the forecasters may be suffering from accumulated caution. The general railway situation is expected to benefit from impending Federal intervention, particularly in the direction of further economies; indicating a better outlook for their securities, without taking into account the probability of further financial assistance. But both economies and financial reorganization mean further deflation of purchasing power in one way or another.

In the commodity field there are many soundings that indicate hard bottom. The banking crisis and its readjustment aftermath have left building and construction financing in a deplorable situation. We can hardly count on much encouragement there, although post-moratorium statistics record gains. Fear of inflation adds to the already great reluctance of leaders to place funds in an investment field where the sanctity of obligations is so unsettled. Besides, people who have been on half rations will eat before they build. It is pleasing, therefore, to note that steel mill activity was slightly higher in March than in last August—the all-time low. From 14.5 per cent in March it had risen to 23 per cent by mid April. In lumber there has been a marked advance in orders.

During the bank crisis electric power production hit the probable depression bottom with a hard bump, falling 13 million kilowatt hours from the midsummer low of 1932, but in the week ended April 8 it was already well above the February low. Bituminous coal production which had been holding up in February to the 1932 level smashed down 13 index points in March, but had already regained about four points by April 1. Automobile production was at less than 75,000 units in March, but April production is forecast at 175,000. Petroleum is still cursed by too much production, but the international conference in Paris and President Roosevelt's consultation with domestic producers point to control. Copper, where also declining production is a prosperity desideratum, is in for further domestic and international curtailment of output—a good sign, with prices at a level with those of a year ago. Lead prices are on a par with a year ago; rubber is a bit better; sugar is appreciably higher, and the ubiquitous President is turning his attention to its troubles.

Wheat Provides a Kick

In the agricultural sector wheat is experiencing a thrill. The forecast for the 1933 yield winter wheat in the United States is only 304 million bushels, and the total crop may be the lowest since 1904. The outlook is good for a protected home market

price during the year, regardless of what the effects of the pending price-raising legislation may be. Wheat is always an advance alignment point for American business — when it booms everything stirs. Cotton acreage will be reduced this year, and in the meantime prices are holding well, due to steady foreign demand and the sustained activity of domestic textile production. There is, too, an interesting possibility that artificial manipulation through the pending farm relief bill may produce an extraordinary ascent of farm prices this year.

Of course, our intimacy with the everlasting bottom, if it is here, depends somewhat upon inventories, even though they would shrink like an April snowbank with a bulge in demand. Retail and wholesale distributors' stocks are, of course, low. Producers' stocks are still large in some lines, both domestically and externally; but almost without exception great inroads have been made upon them within the past year. The greatest world surpluses are in foodstuffs and raw materials. In this group the index of stocks to normal runs from 520 for coffee down to 120 for tea in a list comprising coffee, cotton, rubber, silk, sugar, tea, tin and wheat.

The cost of living has declined until, for the essentials of life, it is lower than several other countries and probably will continue fairly low, unless rampant currency inflation causes a general upturn.

Low prices of raw materials are a favorable factor for industry the moment the ascent of activity begins, for it can continue for a considerable period to take its profit more from increased output than from the spread between costs of material and its selling prices. On the other hand, trade revival will eat rapidly into surpluses, which are largely due to abnormally low consumption. Beyond a little encouraging miscellaneous trade data we have nothing as yet to indicate a general upward trend in consumption. It is too early. Almost every retail trade index was much lower in February this year than last. Rising employment will have to precede real expansion of consumption.

Unemployment Demands Deflation Offset

Unemployment reached new high levels by reason of the bank crisis, but its tendency was still upward before the crisis. As yet there is no statistical evidence of any reduction, although scattered reports of re-employment and the new employment occasioned by the return of beer justify hope that April will register more than a seasonal upturn. General business data are indicative of at least seasonal expansion. But the downward impetus of deflation has been so great, with governmental policies pushing it along, that stimulative action by the Government may become imperative.

A growing group in Congress favors radical action as evidenced by the sizable minority in the Senate vote on the monetization of silver. The danger is great that this element may gather sufficient strength to take the perilous line of attempting to stimulate business through inflation of the currency. On the other hand, if artificial industrial action should put large numbers of men at work for a long time, it may give us all the inflation we need and can digest, along with ensuing natural expansion Inflation, or reflation, is needed, but it should come from business expansion, not the other way around. Inflation, such as we have had in the past and such as Germany and France had during and after the war will only mean another depression incomparably worse than the one out of which we are now beginning to crawl.

The Outlook

Taking all of these various factors into consideration and according them their proper importance it certainly appears that, barring a catastrophe, business activity has seen bottom. Admittedly the statistical proof is scant so far, but much can be read from other indications. For example, our indices tell us little directly of the small business; yet we know that in the past several years the law of self-preservation has forced an increasing number of people into individual business activities which, though insignificant in size, have had a profound effect in the aggregate and are undoubtedly helping to create a balance between the forces of deflation and constructive progress.

Meanwhile two major problems remain to be completely solved: (1) the restoration of purchasing power through employment; (2) private indebtedness. The enforcement of the new labor laws may end the decline in employment and gradually restore the much needed buying power through an increase in the number of individual purchasing units.

The liquidation of debts has been proceeding now for several years as evidenced by the large number of foreclosures, adjustments and bankruptcies. It is currently being further relieved not only by legislative means but also by an ascending price level in securities and commodities. Admittedly the prospect of inflation is a factor in this relief. Whenever business or any individual group asks the government to finance it out of its difficulties it is asking for inflation. It was the cumulative result of demand for public help that led to the tightening of the gold embargo and the definite abandonment of the gold standard on April 18, and ensuing legislation endowing the President with broad powers to decree inflation. These events—occurring since this article was prepared—were generally taken to presage planned inflation. If such inflation comes, the view that we had already seen the last bottom of the depression will be strengthened or weakened according to one's philosophy of the consequences of tampering with the currency. The odds are all in favor of the authorized inflation, if realized, giving rise to a period of speculative activity, which will be transmitted to business. But it may be unnecessary to use the authority. It is quite possible for the President, with or without exercising his new powers, to bring about an enlargement of Federal Reserve circulation to the extent of 3 billion dollars or more to be used in restoring the closed banks or for other purposes. He may still avoid greenbacks and get the hoped-for beneficial results of outright inflation. This would be conventional and controllable expansion, even if it may be called inflation. Such expansion would confirm the view that we have seen the worst.

Dollar Protection in Foreign Bonds

(*Continued from page* 19)

to pay the interest on the bonds in Canadian dollars in excess of the figure stipulated in the bond, such excess representing the difference between the par value and the prevailing quotation of the Canadian currency.

From this, it may be concluded that other foreign debtors, whose credit standing has always ranked high in the world's markets, will discharge their obligations in gold or its equivalent, in the event of a material recession in the value of the American dollar in relation to gold, and a resultant request by American holders of such bonds that debtors live up to the provisions of contracts originally entered into.

Thus, foreign obligations of the above category would seem to afford, to a considerable extent, a protection to the American investing public against any recessions in the value of the United States dollar.

It is with this in view that we suggest herewith a number of foreign obligations which may be considered fundamentally secure investments, with the assurance of prompt payment of principal and interest.

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